Sustainable development and business

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MARKUS KALLIFATIDES AND LIN LERPOLD (EDS.)

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Keywords: Sustainable Development, Sustainability,
CSR, Social Innovation

Sustainable development and business
ISBN: 978-91-86797-27-0

First edition

Art direction and design: Petra Lundin, Manifesto
Production: Manifesto, www.manifesto.se

Distributed by:
Stockholm School of Economics Institute for Research (SIR)

Printed by: Ineko, Stockholm, 2017

PROJECT SPONSOR

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The mission of the Mistra Center for Sustainable Markets (Misum) is to strengthen Sweden's competiveness in sustainable markets, in part by supporting Swedish actors in these markets with both research findings and directly applicable solutions. The Mistra Center for Sustainable Markets is a cross-disciplinary and multi-stakeholder research, education and outreach center at the Stockholm School of Economics.

This book is dedicated to Marie Ehrling for her long commitment to enabling studies of management practice conducted by researchers at the Stockholm School of Economics. Her commitment to research has also greatly contributed to our mission of science-based education and, thus, our students' education. Marie has also acted as an important executive within the sustainability field. She is deeply knowledgeable of the dynamic nature between business and society, encompassing both challenges and opportunities, some of which this book addresses.

Contents

Acknowledgements

Every year since 1992, the SSE Institute for Research (SIR) has produced an Annual Book.[1] As a sign of the times, this volume marks the third time the book has been written in English rather than in Swedish, for several reasons. Firstly, the Stockholm School of Economics is the workplace of many academics who do not speak, read or write in Swedish, and the invitation to participate in the Annual Book was extended to all academics at the School. Secondly, this year's theme of sustainability is inherently global (as well as local), and we intend for as many people as possible to be reached by our efforts at approaching, and formulating, these questions. We therefore extend our sincere gratitude to Michelle Vessel for her suggestions on how to write in the English language. We also thank Petra Lundin for her graphic design of the book.

The director of SIR, Johan Söderholm, and the Chair of SIR, Richard Wahlund, have supplied a great deal of support, for which we are deeply grateful. We commend Richard's initiative to make the SIR Annual Book a project for the entire Stockholm School of Economics, opening up opportunities for new collaborations and a plurality of perspectives, to which this year's book gives testament. We also thank The Swedish Foundation for Strategic Environmental Research (Mistra) through the Mistra Center for Sustainable Markets (Misum) for economic support for this book. Finally, thank you to our interviewees who shared your knowledge and time so generously with us, and to our dear fellow authors for your individual and collective efforts, without which there would be no book!

Stockholm, December 2016

Markus Kallifatides and Lin Lerpold

1 Up until 2009, the Annual Book was produced by Ekonomiska forskningsinstitutet (EFI), the predecessor to SIR.

CHAPTER 1

Sustainable development and business: an introduction

MARKUS KALLIFATIDES AND LIN LERPOLD

Sustainable development has a long history with many different roots. The most widely agreed upon definition, 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs' (WCED 1987) includes the three main pillars of economic growth, environmental protection, and social equality. Recognizing the inherent trade-offs and the difficulties in operationalizing the definition, the different chapters in this volume reflect different aspects of the pillars. The twelve chapters, illustrating different roots in research on sustainable development and business, can all be connected to an interpretation of the seminal modern definition with its three main pillars.

Sustainable development and the role private enterprise plays in society have long constituted important topics in philosophy and theology, as well as the natural and social sciences (Mitcham 1995). In the Socratic dialogues, questions such as 'What is good?' and 'What is justice and injustice?' were posed alongside narratives such as Critias' (360 BC) account of the degradation of our natural world. Theologians have long reflected on progress through some kind of movement towards a future conceived as a recovery of a remote past, as a result of our efforts in the present (Pisani 2006). Furthermore, accounts of deforestation and the loss of fertility in soil in ancient Egyptian, Mesopotamian, Greek and Roman civilizations are well documented (Carter and Dale 1976). The economic philosopher Jean-Baptiste Say (1803) distinguished economics from its public policy uses, and defined the field as the science *of* production, distribution, and consumption of wealth, a framework that aligns with current discourses in sustainable development and its interrelation with business.

Long before Milton Friedman's oft-cited 1970 *New York Times Magazine* piece that contended 'The social responsibility of business is to increase its profits,' penned as a response to the then-current discourse on the role of business in society, the question of shareholder-centric versus stakeholder-centric perspectives (e.g., Berle and Means 1932; Rhenman 1964; Freeman 1984) has antecedents in the political economic discourse and in discussions of the nature of the firm (Coase 1937). Fundamental questions in this line of inquiry include discussion of why firms exist and the rights and responsibilities that organizations have (cf. Hayek 1967). Two distinct views have developed in the current discourse about the shareholder approach, which holds that firms serve the shareholders for their mutual gains and that management has the responsibility of increasing shareholder value – a semantic shortcut for whatever is in the best interests of the shareholders. In contrast to this, the stakeholder approach regards firms as a vehicle to increase the mutual gains of all stakeholders and thus wants its management to balance their interests.

Sustainability first emerged as an explicit social, environmental, and economic ideal in the late 1970s, and by the 1990s it had become a familiar term in the world of policy (Caradonna 2014). Ever since the 1962 publication of Rachel Carson's *Silent Spring*, awareness of the threats facing the natural environment and its role as a precondition for human existence has grown in affluent as well as less affluent societies around the globe. Much publicized sweatshop-like conditions and the use of child labour by multinational brands' suppliers in the 1990s brought the human rights perspective into the mainstream sustainability discourse. The financial crisis of 2008 set off renewed waves of protest against unequal social conditions in much of the industrialized world. Both ecological and social conditions are nowadays talked about in terms of 'sustainability' or lack thereof. In fact, it appears that in everyday parlance among politicians and columnists in the public sphere, the major challenge of the day is framed as the generation of sustainable development, an image promulgated ever since the 1987 Brundtland Commission.

In the aftermath of the financial crisis, the sustainability problem appears to have been reformulated, particularly in the US and in Europe, simply as that of generating economic growth. From the very outset, the vision of achieving economic growth without diminishing Earth's assets has been questioned by people, often in a manner that calls to mind the befuddled child in Hans Christian Andersen's well-known folktale 'The Emperor's New Clothes' who points out that the emperor, who has been swindled into thinking he is wearing an outfit made of exotic material that is invisible to the eyes of those who are stupid or incompetent, is in fact parading around town in the nude. What if economic growth is inherently unsustainable? What if economic growth, as hitherto defined, is not possible while respecting the planet's resources and the social capacity of human beings? And what if further economic growth is not achievable under any circumstances, at least in the affluent parts of the world (e.g., Van den Bergh and Kallis 2012)? Moreover, as many sustainability researchers have posited, there may be inherent trade-offs between development in the socioeconomic and natural worlds (cf. discussions on how the Sustainable Development Goals are contradictory in Spaiser et al. 2016).

We do not claim to know exactly how to answer the child's piercing observation from the outset. However, we do claim that in our times, it would seem wise to maintain a very open mind about most things, including how the production of goods and services for human consumption may indeed be organised while leaving the planet in (at least) habitable condition for future generations. We also claim to know with much greater certitude that these are political matters in which much of what we think of as business is deeply implicated. In this introduction, we take the liberty of pointing to a contemporary and non-trivial example of what kind of challenges we face, as citizens of a global community and in particular as inhabitants of developed nations.

Living in Sweden, we are indirect owners of many businesses. One major one is the state-owned energy company Vattenfall, operator of much of Sweden's hydropower facilities, one of its nuclear plants, and one among three dominant suppliers of electric power to Swedish consumers. In the spring of 2009, the Swedish Government proposed and eventually received Parliamentary approval on Vattenfall's mission and operational guidelines. It was proposed that: 'the task of Vattenfall AB (publ) is to be clarified according to the following: Vattenfall shall generate market-based returns by conducting business-like energy operations in a way that the company is among those that lead the development towards an environmentally sustainable energy production.'[1]

This political document is a striking example of one important dimension of what Nils Brunsson (1989) referred to as the 'organization of hypocrisy'. Brunsson has been a long-standing proponent of an understanding of how large, complex formal organisations are governed into loosely coupled entities that routinely separate logic from practice, thinking from doing, decision from implementation, and façade from performance. In his terminology, the large complex formal organisation typically faces a set of contradictory 'institutional demands' from its environment, which is heavily populated by other large complex formal organizations. Meeting all of the demands by way of action is simply impossible. Walking the talk in one dimension implies only talking or trying to avoid walking in other dimensions, thus, 'hypocrisy' is the organizational routine.

For instance, how does an energy company 'lead the development towards environmentally sustainable energy production' while 'conducting business-like energy operations' and generating 'market-like returns'? Is that not simply impossible? Are there not inherent trade-offs? As in "The Emperor's New Clothes," a child might recognize the impossibility of the government's clarification. Beyond organizational-hypocrisy researchers, the Swedish National Audit Office (NAO) has repeatedly and consistently criticised the formulations in the successive governments' 'owner instructions' to Vattenfall, ever since the incorporation of the company in 1991. The repeated criticism from the NAO is explicitly referred to as the reason behind the 2009 'clarification'. Reading the proposal itself may be undertaken as a reminder of the extent to which we live in a world of Orwellian 'newspeak' that violates the principles of undistorted human communication: truthfulness, rightness, truth and good faith (Habermas 1981).

On the level of organized action, the owner of Vattenfall has demanded that the board and management of the company deliver 15 per cent return on equity. According to the owner, profitability is the 'precondition for the entire

1 In Swedish: 'Uppdraget för Vattenfall AB (publ) föreslås förtydligas i enlighet med följande. Vattenfall ska generera en marknadsmässig avkastning genom att affärsmässigt bedriva energiverksamhet så att bolaget tillhör ett av de bolag som leder utvecklingen mot en miljömässigt hållbar energiproduktion.' Regeringens proposition 2009/10:179 Förtydligande av uppdraget för Vattenfall AB (publ). Available at: corporate.vattenfall.se/globalassets/sverige/bolagsstyrning/arsstamma/proposition_prop.pdf, accessed 11 May 2016.

operation and survival of Vattenfall.' (p. 10). This is a nonsensical claim, since it is up to the owner to decide on the 'entire operation and survival' of the company. In this case, the government has decided to strive for a strictly defined and by all accounts ambitious level of profitability. However, it is under no obligation to do so. The so-called 'precondition' is not a precondition at all. Rather, it is an objective, ultimately set by the procedures of Swedish democracy under the Constitution of the Kingdom of Sweden. Continued snow- and rainfall in the north of Sweden and adequate supplies of uranium are but two examples of factors that truly constitute 'preconditions' for the continuation of Vattenfall's current operations.

Any experienced corporate manager knows that consistently delivering 15 per cent return on equity is a tough challenge under competitive conditions, in a capital-intensive operation at that. In managerial practice, there is often very little regard paid to any other objective besides profitability. At best, this particular 'edited corporation' (Engwall and Sahlin-Andersson 2007) will produce glossy promotional materials telling compelling stories of economically less significant activities relating to matters like the environment or human rights. The ultimate shareholders (and stakeholders), i.e., residents of Sweden, will have 'their' money (the free cash flow from Vattenfall's operations) used to produce all sorts of public relations materials building the narrative that Vattenfall is a 'socially responsible' company.

Still, Vattenfall has been a very responsive company when it comes to producing a consistent return on equity irrespective of the business cycle, market dynamics or any other factor. In fact, for ten years leading up to the 2009 proposal, Vattenfall delivered on the return requirement, based on oligopolistic rents, before embarking on the financially catastrophic acquisition of the Dutch company Nuon and entering a period of falling energy prices.

Vattenfall administers what economists must analytically categorize as taxes collected by the Swedish state, as well as a significant amount collected from non-Swedes. Part of these taxes may be delivered to the state as dividends, and these funds may then be used for general government expenditures. Part of the profits may stay within the company. Either way, the Government of Sweden, elected by Parliament, decides what do with these funds. Vattenfall does *not* conduct particularly 'business-like operations' in the sense of being a self-made entrepreneurial venture in a competitive market, *nor* does it produce 'market-like returns'. Whether it in fact 'leads the development towards an environmentally sustainable energy production' is too difficult a determination for us to make conclusively in this brief introduction. Our purpose here is merely to illustrate the very palpable potential trade-offs we face when discussing sustainable development and business.

At present, the question of a trade-off between doing well financially and doing good environmentally has been an issue in the Swedish and German public discourse and in party politics throughout 2016. Vattenfall decided to sell its brown coal business in Germany (involving 7500 employees) to the Czech company EPH, which has been criticized for its environmentally unsound business practices, as well as for allegations of corruption. In the sale was also included an as yet undeveloped mine that would increase emissions in the order of almost 20 times over the amount that all of Sweden produces annually. Despite the 2009 clarification, the 'fairness opinion' on the proposed deal (required for all state-owned companies) included only a market-based assessment, thus excluding the sustainability aspirations. Moreover, the assessment is only in the form of a 'yes' or 'no' response, in terms of determining whether it can be assessed as being economically fair in a market-based context. The government, without the political will or the majority vote necessary to change the owner directive and standards of fairness, asserted that it therefore could, and indeed must, sell Vattenfall's coal assets. Some political parties, academics and other civil society organisations have campaigned intensively to have Vattenfall retain and decommission these particular coal assets. Keeping this particular coal in the ground was framed as a moral ('doing good') and symbolic issue ('being seen as doing good') of great importance. Other political parties, academics and civil society organisations campaigned intensively to allow Vattenfall to sell the assets, some arguing that selling the assets and investing the proceeds in R&D would be a better strategy of 'doing good while doing well'. Yet others have emphasized that Sweden is hardly in a position to dictate how Germany manages its domestic land use. In the end, the Swedish government in the autumn of 2016 decided to sell the coal assets.

One important set of questions that arises from this example relates to how it comes about that governments and parliaments can propose, ratify, and in some sense enforce outcomes and actions that are essentially impossibilities. Organization theory suggests that answers are to be found in the fact that people in political parties, academics and other civil society organizations promulgate contradictory ideas about what constitutes 'good' and how best to achieve it. The social sciences have come up with at least three different ideas on how to explain this. One 'idealist' tradition in the social sciences, following in the footsteps of Max Weber, emphasizes the circulation of ideas among human beings in culture as the ultimate explanation of why certain social outcomes come to pass. A 'materialist' tradition in the social sciences taking its cue from Karl Marx seeks instead to explain this circulation of ideas as the result of human beings expressing their material interests, either with or without the use of violence as a means of persuasion. The tradition in the social sciences inaugurated by Adam Smith simply denies the problem, instead imagining a world in which there are no power relations except those between a benevolent and fully rational supreme authority and individual law-abiding citizens with no market (or extra-economic) power.

In this book, we set forth the belief that it is pivotal for us to embrace the notions of structural relations of power and incongruent values out there, and further contend that it is in the material interest of most if not all of us to make wiser choices than we have in the past regarding the management of our natural environment and of the social conditions in which we live. 'Business as usual' in the tradition first celebrated by Adam Smith and then by the proponents of his ideas, is not a wise choice in a world of refugee crises, climate change, biodiversity loss, and persistent poverty among a growing world population. We further suggest that ultimately neither 'citizenship as usual' nor 'research as usual' are viable options.

As the Vattenfall case illustrates, researching and providing solutions to sustainability challenges involves understanding many actors and how they influence and impact each other. This includes understanding the linkages between policymakers and their global and national institutions, investors, management, and civil society actors, to name but a few. It also involves cross-disciplinary research at different levels of analysis; macro- and micro-level economics, for instance, organizational studies at the meso level or psychological studies at the individual level. Political science, sociology and law are particularly important as a means of understanding the connections between policy and business, regulations and norms across regional and national boundaries. Economic studies are vital as a guide to the formulation of appropriate means of defining desirable outcomes and achieving objectives. The particularities of these points will likely be interpreted in terms of some rather than the other paradigms in social scientific research on corporate social responsibility – the officialist, the pragmatist, the critical and the cynical (Egels-Zandén and Kallifatides 2011).

In this book, we offer a multidisciplinary and indeed multiparadigmatic collection of chapters on business and sustainable development challenges in the hopes of addressing and promoting unique citizens, researchers and businesses. As editors, we discussed many options for the organization of this book, including organizing along a traditional logic of ontology or epistemology, sustainability focus, theoretical discourse, or levels of analysis. This is a first attempt at drawing together researchers across the school, from different departments, across different theoretical and methodological disciplines. In keeping with our conviction that to contribute in a small way to 'saving the world,' we ourselves need to consider whether 'research as usual' is an option, this diversity has lead us to reject a more traditional approach to structure. Instead, even though sustainability research has come forward in different independent research fields, we believe we are only in a nascent period when diverse fields are now starting to come together in contributing to the whole, or attempting to fit together the pieces of the puzzle that is the complexities of sustainable development. As such, it is too early to consider which organizing logic is most appropriate, and the chapter sequence in our book reflects this conviction, and is thus randomly organized.

The book comprises eleven standalone contributions, the contents of which each set of authors are solely responsible for. In Chapter 2, Staffan Furusten and Svenne Junker remind us that there is a long history of organizations with dual or complex formal objectives such as that of sustainable business practices and/or social benefit. Digging into the reality of the Swedish organizational landscape, the authors find mutual companies, cooperatives and publicly owned corporations all exhibiting such dual or complex formal objectives. They assess the importance of this formal organizational characteristic – the aspect of 'being different' – and wonder whether it impacts the capacity of these organizations to be sustainable or, minimally, to address issues of sustainability.

In Chapter 3, Lars-Gunnar Mattsson and Örjan Sjöberg situate sustainable markets in a dynamic urban context, in which public policy practices interact with market practices. Using the urban development initiative Hammarby Sjöstad and related projects initiated by the City of Stockholm as an illustration, Mattsson and Sjöberg discuss whether urbanization is good or bad for sustainable development and highlight inherent trade-offs between goals and priorities.

In Chapter 4, Mats Jutterström urges us to regard sustainability as another popular management idea. Jutterström surveys our scholarly knowledge of how such popular management ideas emerge and are disseminated across the globe with varying degrees of success. The chapter concludes that sustainability appears to have much in common with many other popular management ideas, while also differing in the sense that sustainability starts off as an idea by and for business about how to become legitimate, rather than an idea by and for business, about how to become efficient.

In Chapter 5, Christine Alamaa, Chloe Le Coq and Clara My Lernborg explore the relationship between social enterprises' collaborations and their economic and social performance. The authors' focus is on the analysis of the collaboration logic and its embedded structure and whether the power structure within the collaboration is related to economic and social performance. Using a unique dataset of 106 Swedish social enterprises, they find that collaboration is not uniquely positively correlated with financial performance, but that it depends on both its nature and structure. For social enterprises, collaborating for resource access is only beneficial when there is a balance of power between the parties involved. For other collaboration motives, however, such as sharing skills, developing products, obtaining publicity, or campaigning for funds, the number of collaborators matters greatly for economic performance.

In Chapter 6, Markus Kallifatides and Anna Larsson exhibit short-term skepticism regarding promises of sustainability while retaining long-term optimism of the transformations to come. In a critical reading of regulatory discourse in the United Kingdom regarding the role of investment intermediaries, they find that the core construct of unsustainable neoliberalism – i.e., the notion of the purely financial investor seeking maximum long-term returns as something desirable – reigns supreme even in the face of rather serious discursive questioning and sociopolitical crisis. These authors, however, do perceive seeds of transformation in the direction of sustainability that have yet to bear fruit.

In Chapter 7, Max Jerneck describes in a historical, comparative case study, the development of markets for solar photovoltaics in the United States and

Japan between 1973 and 2005. His sociological study shows that American firms missed the opportunity to develop the small off-grid and consumer electronics markets necessary for a decentralized solar energy market not possible with conventional sources. In Japan, where solar cells were applied mainly for off-grid use and electronics, the technology was allowed to mature without much reliance on subsidies or exceedingly high energy prices. Jerneck's study shows the importance of the connection between entrepreneurs with the deepest knowledge of the technology and the financial sphere.

In Chapter 8, Marijane Luistro Jonsson, Emre Yildiz and Sofia Altafi deconstruct the Base/Bottom of the Pyramid (BoP) discourse in management research and in global business. Using postcolonial critical theory, they question the core proposition that through global business partnering with local civil society in targeting the untapped markets in developing countries with innovative technologies and business models, poverty will be alleviated while at the same time generating profits for the private sector. The BoP literature has attained a remarkable mass and volume over the past decade, resulting in impacts on both theory and practice. Concomitant with this, critical voices have also emerged, making the argument that the proposition has excessive confidence in market forces and romanticizes the poor. In the chapter, the current BoP discourse as it appears in management and business academia is scrutinized from the vantage point of Saidian postcolonial theory, with the authors aiming to *defamiliarize* the reader of extant BoP literature by exposing how the BoP discourse is meant to make 'the other' exploitable through the invention, representation and prescriptions directed to BoP populations.

In Chapter 9, Ingalill Holmberg and Pernilla Petrelius Karlberg give an in-depth case account of leadership in a large Swedish telecom company attempting to reestablish their reputation and practices as a responsible business. Strategies for dealing with competing demands, including decoupling, coupling, and contingent coupling, are described, with a focus on instances in which the roles of the CEO and Chair of the Board towards stakeholders were distinctly decoupled when first taking charge in developing trust after a crisis, and then coupled or re-coupled in messaging and actions, as well as in situations where past, present, and future were molded together. Their chapter is a rich qualitative study of how the Chair of the Board and the CEO divided their work and responsibilities in order to address sustainability from two different platforms: anti-corruption and ethical behavior on the one hand, innovation and digitalization on the other.

In Chapter 10, Lin Lerpold and Ursula Tengelin present a case study on how the rhetoric and behavior of fundraising organizations have become very similar to the practices used in the for-profit world. Their chapter explores the tension between managing mission-based organizations with pressures for corporatization by linking organizational identity and stakeholder theories based on interviews with Secretary Generals and archival materials from the five largest nonprofit fundraising organizations in Sweden. Though fundraising managers seemed to be resigned to the tension and explicitly projected different images to different stakeholders, concerns of mission drift and corporatization abound.

In Chapter 11, Sophie Nachemson-Ekwall focuses on the special role domestic institutional investors can play in building sustainable business models. In this study, Sweden is used as a case study where Swedish institutional investors are embedded in the country's welfare system and constitute over 20 per cent of the stock market. Nachemson-Ekwall draws on a study of the 18 largest Swedish institutions, including 40 in-depth interviews and suggests that if institutional investors develop and implement new policies pertaining to larger-stake investments, it could change the role these investors play in supporting companies' long-term strategies, thus bolstering their sustainability efforts.

In the final chapter, Chapter 12, Clara My Lernborg and Tina Sendlhofer focus on CSR in global supply chains. Though a great deal of research has focused on multinationals' supply chains, Lernborg and Sendlhofer offer a rare analysis from the perspective of small and medium-sized enterprises. They particularly focus on understanding the role-setting versus rule-following behavior via which, for instance, small and medium-sized companies in the textile industry relate to the larger multinationals in terms of supply chain practices. Ahrne and Brunsson's (2010) concept of partial organizing is used to understand a Swedish enterprise, with headquarters in Stockholm and Hong Kong, offering digital training services designed in collaboration with global buyers and suppliers to add measurability and transparency to social responsibility efforts. The study concludes with substantive diverging views on CSR between buyers and suppliers, along with attempts to transfer responsibility from Scandinavian SME fashion brands to their Chinese suppliers.

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CHAPTER 2

Hybrid organization and social responsibility

– does the organizational form matter?

STAFFAN FURUSTEN AND SVEN-OLOF JUNKER

Introduction

Corporate social responsibility and concerns about how to transform business to become more sustainable are the subjects of lively debate today in media, research, education and organizations. The debate, literature and curricula are, however, often presenting this as something 'new' that should be added to 'normal' management and governance structures in organizations. In this chapter, we reassess this expectation. While it is true that CSR and sustainability more often are coupled with new forms of social enterprises and add-on activities undertaken by existing organizations, we argue that it is equally true that organizational forms that rank social responsibility highest on the agenda have existed for centuries. We specifically refer to three types of corporations: mutual companies, business cooperatives, and publicly owned enterprises. We define these types of corporations as formal hybrid organizations in the sense that they enact goals to confront and handle logics with differentiated tasks and sources of legitimacy. The meaning of *formal*, as we use it here, is that it is officially stated in the organization's bylaws and official documents, as well as in public regulations that determine what mandate these kinds of organizations have, what power they have in controlling resources, and how they earn legitimacy (Greenwood and Hinings 1996).

Hybrids represent multiple normative frames that structure both organizational legitimacy and identity. We claim that this type of formal hybridity refers, for example, to companies with explicit objectives to handle societal challenges by running profitable businesses. It is remarkable to note both the lack of empirically grounded management theories, as well as theories of the organization of social responsibility based on these types of corporations.

The discussion in this chapter aims to contribute to theories of organizing for sustainability and responsible business conduct based on data pertaining to how some hybrids in the private and public sectors have long had dual missions of combining social responsibility with making profits. The research question addressed in the chapter is to what extent the formal organizational structure impacts corporations' capacity to handle societal challenges and engage in responsible business conduct.

Handling diverging institutional logics through hybridity

According to the Swedish national encyclopedia, a hybrid refers to a combination of different species that normally has poor viability. It may be true in biological terms, but hybrids in social life are neither non-viable nor necessarily unfeasible. Rather, adopting strategies for handling hybridity is frequently conceptualized as a key managerial skill (Johansen et al. 2015). Managers are expected to have the abilities to gain the trust of, and establish legitimacy with, a wide range of different audiences. This suggests that real-time organizing is hybridized, meaning that the organizational hybrid blending different values and striving to satisfy different types of stakeholders with sometimes contradictory demands on the organization may in fact be more viable in the long run than organizations that stick very strictly to one organizational form in everything they do. Thus, it is not unlikely that many organizations in practice perform as hybrids while officially presenting themselves as if they are not. In a way, being a hybrid in practice can very well be normal, even if it is not regarded as legitimate to present the organization in these terms (cf. Brunsson 1994).

This intimates a classical dilemma in organization theory, as introduced by Barnard (1938): the difference between the formal and the informal organization. Meyer and Rowan (1977), while discussing myths and ceremonies in organizations, argue that organizations often need to decouple the formal and the informal organization, where the former is how the organization is presented and the latter is how they actually act. This suggests that the image of a hybrid is useful, since it reflects organizational practice in a more representative way. But some organizations are also hybrid in a formal sense, i.e., the way organizations officially present themselves as organizations where different organizational forms are blended.

In organization theory, differentiation is often made between three typical organizational forms, or social categories, to which specific properties and characteristics are devoted, namely the public organization, the limited corporation, and the non-governmental association (Sjöstrand 1992; Forssell and Ivarsson-Westerberg 2007). These are also assumed to be the most compatible organizational forms in the public, market and civic spheres, respectively. Organizations that do not clearly fit into any of these categories are likely to be perceived as some form of hybrids, and thus as organizations with problematic forms.

Still, although these organizational forms can be seen as ideal types that are criticized for being poor representations of organizational practice, they play central roles in the shaping of formal social order. Formal organizational forms are used as grounds for public legislation, and they constitute norms and meanings that form institutions. This suggests that these three different organizational forms are not only ideal types but also social prescriptions to which certain values and assumptions, today often referred to as institutional logics, are connected (Thornton, Ocasio and Lounsbury 2012). As observers, organizational stakeholders can expect certain patterns of behaviour from organizations complying with these institutional logics, and they are normally puzzled and confused when the organizations' actions do not match these predictions (Brunsson 1994). Thus, when organizations become hybridized in how they are presented, i.e., when their formal organizations do not clearly fit into a specific category, it is not unlikely that they will be regarded as problematic and non-viable, and perhaps in need of organizational reform to better match one or the other ideal type. In Table 1 below, the most typical characteristics of these ideal types of organizational forms used in organization theory are defined, as well as the institutional spheres in which they are expected to appear.

INSTITUTIONAL SPHERE	PUBLIC	MARKET	CIVIC
Organizational form	The public agency	The limited corporation	The ideological association
Main principals	State (including counties and municipalities)	Shareholders	Members
Purpose	Administration and service of public benefits	Profit and dividends to shareholders	Facilitate actions to reach common goals
Main stakeholders	Citizens	Customers	Members
Main source of financing	Taxes	Sales	Fees

Source: Adapted version from Sjöstrand (1992) and Forssell & Ivarsson-Westerberg (2007)

Table 1: Organizational ideal types

When corporations focus on sustainability and social responsibility issues, it means that properties from all three spheres should be considered, with potential conflicts between institutional logics being one possible outcome. That organizations in practice continually have to respond to multiple institutional demands is, however, not a new discovery (Besharov and Smith 2014). Selznick (1949) as well as Cyert and March (1963) noted that organizations have diverse expectations to live up to, including incompatible demands that sometimes imply decoupling between what organizations say and do in order to meet different institutional demands (DiMaggio and Powell 1983; Brunsson 1989). More recently it has been observed that organizations have broad repertoires of strategies available that they apply to handle different institutional demands. Pache and Santos (2010), for example, building on Oliver's (1991) framework of organizational strategies to manage institutional pressure, suggest that organizations engage in:

- Acquiescence – the acceptance of something without protest
- Compromise – the attempt to achieve partial conformity to accommodate demands
- Avoidance – the attempt to preclude demands

- Defiance – the explicit rejection of demands
- Manipulation – the active attempt to alter the content of demands

There is a growing literature on hybrid organizations today, but so far the main focus has been on other types of organizations than the established formal hybrids. Moreover, the ways in which formal hybrids have the capacity to handle conflicting demands has not yet been widely discussed. One strand of the literature focuses on new forms of organizations, such as social entrepreneurship ventures, and how they handle multiple values, such as cultivating social engagement, running effective organizations, making profits in combination with creating value for their main stakeholders, i.e., members, customers, or citizens (Battilana and Dorado 2010; Lahire 2011; Haigh and Hoffman 2012). In another strand, the focus is on how organizations handle conflicting institutional demands from the viewpoint of one of the traditional organizational forms defined in Table 1 above. Examples are studies of the healthcare sector where the implementation of NPM (new public management) reforms gradually over the last three decades has established markets and managerialism as dominant organizing logics. One consequence of this is de-professionalization and changed power structures, where the power of traditional professionals; the physicians, has been challenged by experts in management (Noordegraaf 2007; Blomgren and Waks 2015). In this literature, it is argued that organizations that initially belonged to the public sector (such as hospitals) now have become hybridized. They are still formally public organizations, but the organizing logic is no longer the typical public organization; rather, it is a blend of this and the limited corporation. Moreover, they no longer only work in the public sphere; instead, they also act in markets. Blomgren and Waks (2015) argue that this development has forced healthcare professionals to become hybrid professionals who must achieve high competency in management in addition to their medical credentials.

In this chapter, we arrive at the phenomenon of hybrid organizations from another end, the formal hybrids. While earlier studies focus chiefly on organizations belonging to one organizational ideal type, our focus is on organizations that are set up originally as combinations (or hybrids) of the three ideal types – that is, organizations that have from the outset intentionally blended categorical characteristics shown in Table 1.

Given that these types of organizations are formal blends of different organizing logics, it can also be expected that they respond differently to exogenous institutional pressure than do the type of organizations that the literature on responses to institutional pressure has studied (Powell 1987; Joldersma and Winter 2002, Pache and Santos 2013). We claim there is a lack of relevant discussion in both the literature and in practice regarding the formal capacity of different organizational forms to deal with the multiplicity of institutional logics, as well as pertaining to the repertoire of different responses that various types of organizations develop and enact.

A study of formal hybrids and social responsibility

The study is based on different types of data, and the overall approach is qualitative and explorative. The main set of data is documentation in the form of annual reports, sustainability reports, web pages, and official statistics. As reference material, we have also made use of ethnographic field notes from about twenty informal meetings one of the authors have had with managers in mutual companies, business cooperatives and publicly owned companies, as well as meta-organizations representing business cooperatives and civil society corporations between 2014 and 2016 (Folksam, Skandia, Länsförsäkringar, Alecta, AFA, AMF, Dina försäkringar, Fonus, OK, KFO, Famna, Ideell Arena). In these meetings, we mainly discussed the role of the respective organizations in contemporary society. In this chapter, we focus on nine corporations, three of each category of the chosen formal hybrids:

- Mutual companies: Folksam, Alecta, and Skandia
- Cooperative companies: Arla, Fonus, and Coop
- Publicly owned companies: Systembolaget, SBAB, and Samhall

Although we can divide formal hybrid organizations into the three broad categories of corporations, they are not uniform. The selection of examples is therefore based on the fact that we expect them to represent different groups within the categories. Thus, they are selected in an explorative mode to represent some variation in the type of organizations and activities. Based on the literature on hybrid organizations and institutional logics, we analyse our data in three dimensions. First, we compare how the organizations frame their *mission*. Second, we discuss the *institutional demands* we have observed that they are struggling with and whether we see *dimensions of conflicts* here. Finally, we discuss the *organizational responses* we have observed that they adopt in order to handle the experienced conflicts. Before this analysis, however, we give some background as to why and for what purposes the type of corporations we focus on were founded.

Organizing to solve societal challenges is nothing new

Today, social enterprises are on the rise, with the purpose of running profit-making businesses both to do good in the core operations, e.g., by giving unemployed or disabled people meaningful work, or to get resources to do good as part of the business. To start a business venture in order to tackle societal challenges is, however, not new.

At the turn of the twentieth century, Sweden was still a poor and rural country. Growing urbanization and industrialization gave rise to a number of crucial societal challenges that could be handled by neither the weak state nor existing companies. In many instances, going collective was considered to be the right way forward. One example is that many local cooperative consumer associations were founded around the country in order to improve living conditions for impoverished and socially vulnerable groups of people by providing higher-quality food for lower prices. In 1899, some of these undertook a joint effort to establish a national association to join together all local consumer associations, KF (the cooperative federation)[1]. Since KF's mission was to improve living conditions for its members and insurance was not an option for everyone, the recently formed organization initiated the establishment of the mutually owned insurance company for its members (1908), which after a number of years came to be known as Folksam[2]. Thus, it was a societal challenge at that time to increase income and food security for impoverished people. Further, existing actors, such as firms on the market and public organizations, did not have the tools to tackle these challenges.

In a mutually owned company, the customers are also the owners. Once you sign up for and purchase insurance, you also become one of the owners. In our meetings with managers at Folksam, it has been said that the purpose of this organizational form is to provide 'utility to the owners' rather than dividends, as is the purpose of listed companies. A representative of another

1 www.kf.se

2 www.folksam.se

company in the insurance industry with a long history, Skandia (which in 2014 transitioned from a limited company to a mutual), described its vision as helping to facilitate a 'richer life for their community of owners', and not necessarily always in terms of monetary bonus. In their role as insurance companies, they need to adhere to regulations mandating that a certain level of risk capital is needed to safeguard their obligations in case the owners/customers need to use their insurance, but if they have an accumulated surplus above this limit, they can use these resources for the owners/customers, or to help give them a richer life, or however they choose to safeguard their owners/customers interests in the long run in a sustainable way (Alexius, Gustafsson and Sardiello 2016).

The idea with cooperatives is similar: to solve societal challenges by going collective. Most local consumer cooperatives were established for practical reasons. OK, the Swedish cooperative in the petrol industry that runs a nationwide network of gas stations (today in cooperation with Q8), was founded in 1926 by Swedish car owners[3]. As presented on the cooperative's website, local car owners felt that the supply of gas in the country was insufficient and gas prices too high. At the time, the gas market was dominated by a few international actors, and OK says that founding a cooperative was considered to be a way to increase the power of the car drivers, to bring down prices, and to develop better supply chains for oil and gas in the country. Another example of a cooperative is the Swedish federation for farmers founded in 1905. Although local initiatives had been undertaken for this group more than a century earlier, it is said on the cooperative's website that this was the first initiative that allowed for cooperation between regions. The purpose was to increase product quality, decrease purchasing prices and costs for transportation, and create a platform for exchange of knowledge and experience among farmers.

Both as individual organizations and as a group of organizations, cooperatives and mutual companies can be categorized as political actors, in the sense they are based on ideological claims for a better society. They exist to improve and do good. Many of the existing state-owned enterprises also have an outspoken social mission. Even those established with clear profit-making objectives are often under scrutiny for making political trade-offs in their operations

3 www.ok.se

(cf. Alexius and Cisneros Örnberg 2015). One example is the state-owned enterprise Systembolaget, which was founded in 1955 as a direct consequence of the government monopoly on the retail sale (outside registered restaurants and bars) of alcoholic beverages in the country. It has a social mission of controlling alcohol consumption in order to reduce negative health impacts on the population. Another example is the public bank SBAB, which began offering residential mortgages for citizens in 1985. The bank has numerous social missions, such as treating every client equally as well as engaging in activities aiming at improving housing conditions for marginalized groups. Recently, it has started offering other banking services like personal saving accounts and deposits for the corporate market and tenant-owner associations. A third example is Samhall, a state-owned enterprise established with a social mandate to create work that furthers the development of people with functional impairment that has reduced their working capacity.

These short narratives aim to show that the organizational form we label as formal hybrids in many cases were established to handle societal challenges. Referring to Table 1 presented above, we argue that formal hybrid organizations such as mutual companies, business cooperatives, and publicly owned corporations are all operating in the market sphere as corporations, but they actually exist to serve stakeholders rather than shareholders. Specifically, in the case of cooperatives, the stakeholders being served are members, meaning that the companies also operate in the civic sphere. Moreover, since they all have some form of public benefit as their core mission, they can also be seen as operating in the public sphere. This means that these types of companies are formally pooling different institutional logics, such as the for-profit corporation, the concept-based association (as in the case of the business cooperative that is owned by its members), mutual companies where the customers are also owners, and the public agency which exists for the sake of the common good. In the case of companies owned by the state, municipalities, or counties and thus indirectly by the citizens, the blend of all logics is perhaps most striking, since it is formally clear that the logics of political control and civic value are mixed with the logic of profit-making. We therefore call these organizations formal hybrids because the ability to handle mixed logics has been the goal from the outset.

Organizational legacy as a basis for legitimacy

Social mission still serves as the core value in the public reporting of most analysed mutually and cooperatively owned corporations. The companies do not, however, only refer to the social setting when they were founded; their organizational legacy is still frequently cited in presentations, as well as verbally in meetings, on their websites, and in documents. In annual reports, web pages, and ethical codes of conduct, as well as the sustainability reports that we have studied, the organizational legacy is very often given top billing. They frequently discuss why the companies were established and which social problems they have attempted to solve, as well as new societal challenges they have taken on.

One example of this is the cooperative retail firm Coop, the subsidiary of KF that was discussed above. On its website, the company states that it was established to improve the selection of food available for consumers under the slogan 'Together we make a better deal' (Annual Report 2015). Based on its legacy, Coop claims to have had a long-term commitment to sustainable development, and lists projects that are almost 100 years old as a way of ensuring that the goals of the company are still intact. Another example is in the 2015 annual report of the cooperative funeral agency Fonus. On its website, the emphasis is on the cooperative's social mission and the handling of social challenges, which are identified as its chief purpose since it was established in 1945. In the annual report, it is also highlighted that the lack of regulation on the funeral industry led to rapid price increases in the post-war period. The purpose of founding Fonus, it is claimed, was to act as a 'counterforce' to economic injustices and to give everyone access to what the company calls an 'honorable memorial'.

Similar type of inheritance is also a crucial part of the stories told by the mutual companies we have analysed. Alecta, for instance, claims to be one of the 'architects' of the Swedish occupational pension plan system. Since its start in 1917, Alecta has been 'bold and far-sighted', and therefore is 'a core part of the construction of a more modern and safer Sweden' (Annual Report 2015).[4] Another example is Folksam, which in its 2015 Annual Report and on its website emphasizes its legacy and the fact that since its establishment it has

4 The firm today called Alecta started in 1917 under the name *Sveriges privatanställdas pensionskassa (SPP)*. The name was changed to Alecta in 2001.

continuously sought to offer insurance to people facing challenging social circumstances and marginalization.

The publicly owned companies we have examined do not emphasize their organizational legacy as much as the cooperatives and mutual companies do. State-owned bank SBAB, for example, maintains quite a low profile regarding its social mission. Systembolaget, on the other hand, claims that the basic impetus for its creation in 1955, i.e., to sell alcohol without focusing on making profits, remains the top priority for the company. One recent decision that seeks to enforce this legacy is that customers who are checking out from Systembolaget stores now encounter a sign asking, ‘Hey, did you change your mind?’ and a trolley in which to place unwanted bottles. The company’s official reports features quotes from executives and representatives stating that they are proud of Systembolaget’s social accomplishments (Annual report 2015).

The legacy of state-owned Samhall is framed in a slightly different manner. In 1980, the state decided to integrate many municipal companies into one central organization with regional offices. Cost-effectiveness and corporate governance appear to have been the major goals for integration and reforms since then, but this has been undertaken without changing the primary mission of the company to create stimulating jobs for persons with disabilities. The vision of the organization, as presented in the annual report from 2015, is to contribute to a society where everyone in Sweden can function as an asset in the labour market.

In sum, regarding organizational legacy, an organization’s orientation, mission, and length of service seem to be crucial factors for building legitimacy in public communication for most of the organizations we have studied. In particular, the mutual companies and cooperatives seem to exhibit pride in their heritage and the founding impulse to solve social problems by bringing together, promoting, representing and defending their main stakeholders. Organizational legacy is central for these organizations in formulating their internal mission. Also, the examined publicly owned corporations communicate the historical rationale on a frequent basis. It is clear that these companies have been established as a political solution to a wider societal issue. However, the organizational legacy is positioned as neither a hindrance nor a boon when it comes to pursuing desired outcomes. Rather, managing the organization as a limited company is often illustrated as the most effective way of fulfilling the political goals.

Highlighting the pros and cons of being 'different'

Another core characteristic of the official communication from the organizations in focus is that they frequently point out that they are fundamentally 'different' from regular companies. In many cases, organizational differences are framed as justifications for sidestepping a commitment to a business rationale. Often, this type of rhetoric is related to the organizational legacy that was discussed above. However, characterizing the companies as different also grants some latitude for unconventional manoeuvres and actions. In our study of official reporting, we have identified three different ways of portraying organizational difference.

First, many of the analysed formal hybrids highlight that they have enacted a primarily stakeholder-focused approach to operations, in contrast to the shareholder focus normally associated with profit-making companies. Several of the organizations claim they intend to take responsibility for the entire value chain, adopting a more comprehensive approach than those adopted by typical profit-making firms. According to Arla's latest CSR report (2015), the cooperative strives to operate responsibly across the full cycle of milk production – 'from cow to consumer'. In annual and sustainability reports, Coop frames itself in a similar manner, claiming that farming and transportation to stores, as well as broader concepts of sustainable consumption, are all foundational elements of bringing its vision of sustainable development to fruition. Mutual Alecta states that it is a 'different' pension firm, citing the following reasoning: 'We do not advertise', [...] 'We do not sell any funds, we pay no commissions, and we have no fancy office networks'[5]. Alecta instead claims to focus primarily on how best to protect the pension savers' interests.

Secondly, another identified organizational difference is the practice of questioning the centrality of profits as the chief organizational goal. In the annual report of Folksam (much like Skandia, the mutual insurance company), it is noted that insurance companies' basic premise is to reduce costs by sharing risk. However, it states that at 'Folksam, we also share profits'[6]. This is not a wholesale rejection but rather a redefinition of the rationale behind profit-making as merely a matter of cost efficiency and economies of scale. State-owned Samhall acknowledges that its stocks are 'without dividends'.

5 Our translation from https://www.alecta.se/Om-Alecta/Detta-ar-Alecta

6 Our translation from http://www.folksam.se/om-oss/om-folksam/det-har-ar-vi/vi-ar-kundagda

Instead, profits are reinvested in the company. However, it is also claimed 'that active sustainability measures do not hinder business skills'. This is clearly an attempt to balance the expected positive effects of profits, such as cost-efficiency and consequential decision-making, with the expected negative effect of losing resources as disbursements to capital owners. State-owned Systembolaget, on the other hand, is profiled as a company largely disassociated from profits: 'A company that sells beer, wine and liquor without profit limits the alcohol problems in Sweden. That is good for society'[7]. Despite the statement, it is still clearly stated in the 2015 Annual Report that Systembolaget aims at reaching 'cost-efficiency and business-mindedness'. It is also obvious that the state-owned enterprise sets a goal of providing a source of income for the state.

And finally, some corporations in the study are portrayed as being different because they are more open and democratic. Cooperative Fonus, many members of which are nonprofit associations, asserts its organizational difference primarily by referencing democratic values. It is stated that all members of the organization have the power to choose representatives that make essential decisions for the operations of the company. Openness seems also to be a crucial factor for Skandia, established as a limited company in 1855. However, the company suffered several major crises in the early 2000s and was taken over by non-Swedish owners (Kallifatides, Nachemson-Ekwall and Sjöstrand 2010). Recently, the mutual subsidiary life insurance company and other parts of the former listed company have been reorganized with the mutual as parent company, now with the express objectives of regaining the faith and respect of its customers and owners under the motto 'full transparency and customer control' (Annual Report 2015). To bolster customer influence, a non-profit association named ProSkandia has been established to safeguard the mutual owners' interests in the company.

In official reporting, these differences are often contended to be advantages in terms of conducting business responsibly while simultaneously tackling societal challenges. This unique class of organization has some leeway when it comes to jettisoning some of the institutional demands normally associated with traditional companies. This could help them rationalize legacy as something essential for successfully carrying out the role of change agent in the

7 Our translation from https://www.systembolaget.se/vart-uppdrag

march towards sustainability. Nevertheless, finding the right balance is not always easy. The study indicates that mutual companies, and even more particularly, cooperatives can face problems in raising financial capital. Moderate profit expectations decrease the interest of investors. Instead of relying on organic growth, the cooperative Arla devotes a large portion of the text in its latest annual report to analysing the problem of raising capital for global expansion. Based on this problem, the cooperative has recently decided to issue a new type of financial bond aimed at institutional investors. In the annual report, the decision is characterized as a substantial shift towards market logics in the cooperative business.

On the other hand, the state-owned enterprises studied have also adopted values in conflict with an economic rationale, but these conflicts are rarely spelled out in formal documentation. For example, Systembolaget is not under much market pressure since it has a strict monopoly on retail alcohol sales in Sweden, with the exception of sales made in restaurants and bars. A change in its monopoly status would impose a totally new set of institutional demands. In the face of competition, Systembolaget could encounter problems retaining some of the values that make it 'different'. Another example is Samhall, which over the last two decades has reduced the number of people working for the company with over one-third, despite its vision of providing jobs to the most vulnerable people in society. A former chairman has accused the company of cutting the jobs of the most profoundly disabled staff members in order to achieve economic objectives.[8] These organizational reforms in Samhall seem to indicate that the idealistic social goals adopted by an organization are sometimes impossible to achieve in practice.

Discussion: Is hybridity a means for handling conflicting logics?

In comparing the three categories of formal hybrid organizations – mutual companies, cooperatives, and publicly owned firms – we see both similarities and differences. All in all, it is clear that mutual companies and cooperatives are almost identical, with the main difference being that the mutual company exclusively has its current customers as owners. This means that if customers stop buying the product, normally an insurance policy, they are also giving

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up the rights of ownership. In cooperatives, the owners are members, but non-members can also be customers. This means that a mutual company's main concern is its customers, while the cooperative's chief concern is its members. Publicly owned corporations, on the other hand, have a wider concern. They are owned by and exist on behalf of all Swedish citizens in order to provide social benefits to the population on a long-term basis. So what unique capacities do formal hybrid organizations possess when it comes to handling conflicting logics?

Internal mission: Both mutual companies and cooperatives share similar internal missions; they emphasize their organizational legacy in their public presentations in documents, on the web, and verbally in interviews and meetings. Rhetorically, they build up an image that they were established to solve important social challenges, and that this legacy justifies their present and future existence. The image these organizations are trying to build is that they have done something beneficial for society in the past, and that they still are dedicated to the same mission. In emphasizing that they exist to make life better for their owners, customers or members in the long term, they are staking out a claim of uniqueness in the corporate landscape. In internal communications and rhetoric, publicly owned enterprises posit that they exist for the sake of social betterment; however, these types of communications tend not to focus on organizational legacy to the same extent. In these domains, the companies do not strongly contend that they are inherently different from the 'normal', profit-making, listed company. The main difference is that they in most cases are completely owned by public organizations. Still, although they are technically corporations, they continue to emphasize that their long-term mission is to be of societal benefit. In this dimension, publicly owned enterprises' social concerns are much broader than those of mutual companies and cooperatives, which only have a formal mandate to focus on their customers or members.

Conflicting institutional demands: The respective missions and institutional demands associated with the three categories of hybrid organizations rest on different institutional logics. They are all corporations, which means that they are expected to adhere to the same standards of behaviour and best practices as if they were traditional companies that generate profit, are autonomous and focus on strategy (Bromley and Meyer 2014). However, the mutual companies and cooperatives also draw upon the logics of the association, since they are based on the idea of a shared interest that only accrues to the benefit of the owners. However, although this supposition seems to be very clear on the surface, it is also open for interpretation. Mutual companies claim, for example, that they are focusing on the needs of, and benefits to, not only the current owners, but also those that will exist in the future. This is arguably inconsistent with the logics underlying both the corporation and the association. Both of these logics dictate that the organization should focus strictly on the owners and the benefits that will accrue to them only, which means that the mutual companies' stated focus on the future is misguided. For insurance companies, this point is crucial, as it is necessary that they retain a sufficient number of owners at all times, so that if a disaster or event transpires that would force them to marshal their resources to support their policyholders, they would be financially capable of doing so. Thus, there is an inherent conflict extant in both mutual companies and cooperatives that have blended the defining characteristics of the corporation and association into one hybrid practice that simultaneously focuses on the demands of benefitting the customer and fulfilling the duties of an owner. The cooperative, on the other hand, is formally clearer in this regard. Customers must make an active choice in order to become a member, and there is no formal connection between being a member and being a customer. You can also be a customer without being a member, but you might not be able to access the lower prices available to members.

In a way, it is the same with the publicly owned enterprises. They are set up to take long-term, sustainable responsibility for core societal functions, but the organizational logics under which they operate are designed to be applied to the limited corporation. Moreover, citizens indirectly own them, and their customers are also citizens in most cases. Still, there is a conflict inherent in the fact that they are supposed to make profit in business relationships with their owners, the citizens. A common critique of publicly owned enterprises is their corporate governance structure. They are often accused of having weak owners who do not take ownership responsibility (Sjöstrand and Hammarqvist 2012). This is not surprising, because although citizens own them indirectly, owner performance is governed by particular social circumstances. As citizens, we are members of different communities, such as municipalities, county councils and states. We elect people to represent our will in local, regional, and national parliaments via public elections. It is at this level that corporate governance is executed. This means that for citizens – the true owners of publicly owned corporations – there is a disconnect between being an owner in practice and executing governance. Most of us are not aware of, or bother to educate ourselves about, our ownership stake. This little-known ownership structure is probably even more complicated in the case of mutual companies. We are aware that we are customers when we sign up for an insurance policy and pay our premiums, but the fact that this also means that we become owners with the opportunity – and perhaps even the duty – to exercise corporate governance duties is not clear to most of us (cf. Michels 1962).

Organizational response: The dualities in internal missions, as well as conflicting formal institutional demands, shed light on what the struggle to attain legitimacy looks like in formal hybrid organizations. This means that there are demands on hybrid organizations that require a response. Depending on their degrees of awareness and comfort in being hybrids, they can respond to this in different ways. If there is widespread awareness within a hybrid that it is different and that this means the organization does not have to adapt to either one logic or the other in a strictly binary fashion, they can use the strategy of *avoidance,* emphasizing the argument that the pressure to adapt does not apply to the organization, precisely because 'we are different' (cf. Alexius 2007).

However, our observations indicate that it is likely that there are tendencies within the companies to emphasize one or the other logic. There are groups of people in mutual companies, for example, who think it would be better to opt for de-mutualization and become an ordinary listed corporation. On the other hand, there are people in the organizations we have studied who emphasize that they stand for a completely different view – they regard mutual companies and cooperatives as ideological communities and see the employees as civil servants representing the 'members' of these communities. This duality in views suggests that another common response is *decoupling* (Meyer and Rowan 1977), although this choice may not always be a conscious one. We observed that in formal reporting, the message is often conveyed that the companies are still dedicated to the organizational legacy and to addressing the societal challenges that were established to deal with. This is the official version. In various other situations, however, we observed that different representatives of these corporations tended to express contradictory visions of what type of corporation the organization is, or should be, and where it is heading.

We also see, however, that they are struggling to grapple with the evolving environment. They take actions in order to place arguments in the media about the societal benefits of mutual companies and cooperatives. One example is an initiative undertaken by KFO, the association for employers in the civil service sector in Sweden – such as cooperatives and mutual companies – of arranging a seminar on the topic 'Leadership in hybrid organizations' at the 2016 Almedalen Week in Visby.[9] This is an example of the political strategy *manipulation*, in that they are actively trying to shift or diminish the pressure on them by engaging in marketing, communication, and lobbying activities in order to change norms, standards, and rules according to which their results are assessed.

The publicly owned enterprises, however, do not seem to have as much trouble with their identity and institutional demands as do the mutual and cooperative companies. The typical response from them is the strategy of *compromise*, whereby they accept the demands directed towards them and struggle to uphold the governance mandate given to them by the owners, even as they strive to function as responsible market actors (Alexius and Cisneros Örnberg 2015).

9 The Almedalen week is an annual event in Visby, Sweden, where politicians, lobbyists, consultants, researchers, policymakers, corporations, etc., gather for discussions, negotiations, networking, and introducing their ideas into the public discourse.

CATEGORY OF FORMAL HYBRID	INTERNAL MISSIONS	CONFLICTING INSTITUTIONAL DEMANDS	ORGANIZATIONAL RESPONSE
Mutual	Organizational legacy	Financial surplus as means not ends Customers as owners Social customer related benefit rather than profit	Avoidance Decoupling Manipulation
Cooperatives	Organizational legacy	Financial surplus as means not ends Members as owners Social member related benefit instead of profit	Avoidance Decoupling Manipulation
Publicly owned enterprises	A limited corporation for the public benefit	Public benefit and self-financed activities Financial surplus as means not ends Making profit while taking long-term societal responsibility	Compromise

Table 2: A model for balancing conflicting institutional demands

Conclusions: Does the organizational form matter?

We have discussed three categories of formal hybrid organizations in order to explore organizational form's impact on organizations' capacity to handle societal challenges and engage in responsible business conduct. Due to the long history of the studied mutual companies, business cooperatives, and publicly owned corporations, it is evident that they are viable. The similarities between the three categories of formal hybrids studied here can also be seen as evidence that it is reasonable to categorize formal hybrids as a fourth typical organizational form.

Formal hybrids could be defined as operating mainly in community spheres, in the sense that their stakeholders are either owners or members and that they are formally set up in order to better the circumstances of the members in these communities. But they do that by acting in markets and representing civic interests. Their main principals are the communities of stakeholders that they constitute, thus their owners are the members of these communities. For mutual companies, the community consists of their customers (contemporary as well as future); for cooperatives, it consists of their members; and for publicly owned corporations, it is citizens in the nation, the county, or the municipality. Sales account for the chief source of financing, and for mutually owned corporations, the only source. This description characterizes formal hybrids as a distinct organizational form that we attempt to sketch more fully in Table 3 below.

INSTITUTIONAL SPHERE	PUBLIC	MARKET	CIVIC	COMMUNITY
Organizational form	The public agency	The limited corporation	The ideological association	The hybrid organization: Ideological corporation
Main principals	State (including counties and municipalities)	Shareholders	Members	Communities of stakeholders
Purpose	Administration and service of public benefits	Profit and dividends to shareholders	Facilitate actions to reach common goals	Service of benefit for the community
Main stakeholders	Citizens	Customers	Members	Owners: customers, members, and citizens
Main source of financing	Taxes	Sales	Fees	Sales

Table 3: Four typical organizational forms

Still, although it makes sense to see formal hybrid organizations as an analytical category with particular characteristics, it is a generally contested organizational form. One of our main empirical findings is that formal hybrids meet institutional demands that they should become more 'normal' corporations acting in the market sphere. So far, however, our observations tell us that they can handle this pressure and justify their difference by referring to their organizational legacy.

This, however, often entails institutional conflicts that need to be responded to. As shown in Table 3 above, mutual companies and cooperatives employ similar types of strategies: they avoid, decouple, and manipulate in parallel processes. They manage to avoid the pressure by referring to their organizational legacy, but they also decouple depending on the situation they are in. To some extent, their references to their legacy can be interpreted as mainly being a discursive representation of what they are, thus the rhetoric in how they present themselves, while acting more or less as other market actors when they carry out their businesses. At the same time, they also manipulate the demands by propagating the need of the kind of organizational form they represent in contemporary society in order to take social responsibility by arranging seminars and making statements on their websites and in media, as well as challenging international financial standards and national financial regulation.

Publicly owned corporations, on the other hand, do not seem to have room for these ways of meeting institutional demands. They are formally a part of the political system as publicly owned, and as such, it is not acceptable for them to manipulate the system. They are also targets of media scrutiny, often in a more direct way than are the others, due to the fact that they are, however indirectly, citizen-owned. Thus, their existence is not voluntary like the other categories of formal hybrids. For these reasons, they are more likely to practice compromise, accepting their situation. Still, the fact that they exist to serve society gives them legitimacy to prioritize actions that strengthen sustainability and social responsibility.

So, does organizational form influence organization's capacities to handle dual missions and conflicting institutional demands? Although we suspect this is in fact the case, our analyses here do not provide a clear answer. More comparative research is needed. Still, based on our discussion, we claim that corporations organized as formal hybrids have dual missions integrated in their organizational legacy, and this gives them, we argue, heightened capacity to justify actions that deviate from the logics of the typical corporation (cf. Brunsson 1994). Moreover, formal hybrids are political, they were founded to deal with social challenges, and thereby have a long history of being engaged in political discourse and debate in their areas of practice, which means they have developed capacity to deal with opinions and conflicting demands from stakeholders. Their long-term perspective on the services they offer also justifies that they can engage in other types of actions and considerations that deviate from organizational stereotypes. Thus, formal hybrids function as organizational chameleons, using different arguments over time and in different situations to justify their existence, actions, and performance.

This suggests that the formal organizational form may matter, that hybrid organizations seem to have other capacities different from those of typical corporations, public organizations, and associations. It is normal for them to meet and handle conflicting institutional demands, while this is more problematic for other types of organizations. This suggests that formal hybrids, despite being exposed to conflicting institutional demands, may have better capacity to handle them and be viable over time. It is legitimate for them to be different, to set shareholder value aside, and emphasize that they have legitimate reasons to take actions for the benefit of their stakeholders.

Does this give them better capacity than other organizational forms to take social responsibility? Our analysis supports the notion that this is likely to be the case, since taking social responsibility in practice means that the corporate logic is blended with the public and civic, and blending logics is what formal hybrids are legitimized to do. However, the question of whether they are better at taking social responsibility than are other organizations remains to be studied empirically. Due to their internal mission and organizational legacy, it may be that there is a risk that it is easier for formal hybrids than for other types of organizations to decouple from what they say they do. The questions of whether and in what specific ways they act responsibly today, and whether they are better equipped than other organizations to do so, can only be answered through more empirical studies.

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CHAPTER 3

Market practice, policy practice:

The quest for urban sustainability

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Sustainable markets in a dynamic urban setting

Although sustainable urban development has been high on the agenda for quite some time, not least as 'reflected in high-level policy endorsements of the "eco-city", "sustainable city", "smart city" and related sister terms' (Joss et al. 2015: 6), urban environments are as much the source of the problem as part of the solution. As Rees (2012: 247) pointedly argues, 'modern cities as presently conceived are inherently unsustainable'. If true, and much points in this direction, this is of some consequence at a time when global levels of urbanisation are at an all-time high and increasing.

On the one hand, major urban areas tend to sustain high levels of consumption (e.g., Holden 2004; Bradley et al. 2013). On the other hand, new approaches to urban design do indeed 'hold promise for a significant reduction in environmental impact' (Newton 2011: 1). This includes a wide range of opportunities, such as improving the utilisation of existing infrastructure, lowering costs in supplying public transport and the potential of using big data for sustainability ends. However, it is also an increasingly common view that higher densities, digital solutions and green technologies might not be the panacea they are often thought to be (Gordon and Richardson 1997; for a review see Ewing and Hamidi 2015). Also, leaving the second law of thermodynamics aside, and thereby ignoring the dissipative nature of urban areas (Rees 2012), smart city approaches to urban design will likely not compensate for the higher levels of consumption – of energy, of building materials or everyday consumer goods – often observed in major cities. Indeed, there is little to indicate that the ecological footprints of urban areas in general and that of major metropolitan areas in particular are about to be cut back within any reasonable time frame, despite the observation that urban areas may have certain advantages as seen from a sustainability angle.

This is of some consequence, not least from the point of view of policy interventions and societal strategies to combat climate change and other outcomes of unsustainable development. Such interventions often take the form of technological 'green fixes' (Holgersen and Malm 2015) sponsored by public policy. Development, implementation and further adaptation of new technology depends on the actors and resources that reside in markets. Thus both public policy and markets and the interaction between them matters. We argue that to understand conditions for sustainable development, much more needs to be known about this, since market economic principles, in one form or the other, dominate the global economy. Both policy and markets are embedded in and affected by institutions, markets themselves being an institutional arrangement (e.g., Boyer and Hollingsworth 1997).

In line with this, we adopt a practice perspective, that is, we focus on what policy actors and market actors actually do in their respective domains and how these practices are interconnected and may produce change (e.g., Kjellberg and Helgesson 2006, 2007; Whittington 2006; Nicolini 2009; Araujo et al. 2010). In discussing the role of markets for sustainable development, as in this chapter with reference to urbanisation, it is therefore important to consider how markets are influenced by public policies addressing sustainability – and vice versa (Mattsson 2016b). Policy can encourage or impede specific market behaviour, for instance through subsidies, taxes, product bans, rules for public procurement, urban planning norms and so forth. New technologies and new business models developed and implemented in markets might in turn stimulate new policy initiatives.

Neither markets nor policy exist in isolation. Markets are part of wider systems, "networks of markets", comprising both cooperative and competitive relations. Likewise, policies are part of wider policy domains (and may additionally be the object of lobbying). A focal policy might be supported by or counteracted by other policies. For instance, competition policy might support or counteract innovation policy. Local policies might be affected by national policies that in turn are dependent on international or even global policies.

Empirical studies of market practice have shown that interaction and exchange relationships between actors are of crucial importance to achieve operational efficiency as well as effectiveness in terms of innovation (e.g., Kjellberg 2001; Håkansson and Waluszewski 2002). Both cooperative and competitive direct and indirect relationships extend across markets as traditionally defined. This is the case as regards technical innovation as well as globalisation. Thus, what happens in a market is induced or else influenced by actions, resources and outcomes in other markets. The degree to which this might be material for specific outcomes is an empirical question that has received an affirmative answer in many studies. Such studies have also developed conceptual frameworks focusing on interdependencies and interaction in markets (e.g., Håkansson and Snehota 1995; Håkansson et al. 2009).

The need to situate markets and market actors in relevant contexts or settings as regards urbanisation is also a conceptual issue. By focusing on the shift of population, as opposed to viewing the urban as something static, we are better able to capture economic change. This is of some consequence as economic activities in markets, interacting with policy, both follow from and might be instrumental in inducing urban growth or decline.

This contribution thus sets out to situating sustainable markets in a dynamic urban context, in which public policy practice interacts with market practice. Focusing on markets as parts of wider systems of markets, and public policies as parts of wider domain of policies, it asks how one might trace effects across this system. As soon as we endorse, in the spirit of the Brundtland report (WCED 1987), the multi-dimensional nature of sustainability in an urban setting, we inevitably not only encounter the traditional trade-offs that economics makes explicit but also the often conflicing needs that the goals of environmental, social and economic sustainability generate. Thus we need to consider the role of markets not only for economic and technical innovation, but also for social innovation. This is a tall order, to be delivered in small, or very small instalments. We will, as an illustrative empirical case, use the urban development project Hammarby Sjöstad and related developments initiated by the City of Stockholm, focusing on some of the efforts by the city (politicians, planners) to induce the business sector to use more sustainable market practices, including implementation of sustainable technologies.

We define a sustainable market to be a market that supports sustainable development, while an unsustainable market does not. The notion of sustainable development implies that dynamism is a necessary attribute of sustainable market practice (Mattsson 2016a). Empirical studies, with results that might be interpreted to show the existence of sustainable markets in the relative sense, include work by Sweet (2000), Håkansson and Waluszewski (2002), Geiger et al. (2014) and many others.

In an increasingly urban world

Urban areas are 'a key to sustainability', or so the originators of the idea of ecological footprints suggest – though in the very same breath, they proclaim that cities 'cannot be sustainable'. On the one hand, as *'no city or urban region can achieve sustainability on its own …* cities have become entropic black holes drawing in energy and matter from all over the ecosphere' (Rees and Wackernagel 1996: 236–237, italics in the original), creating an abundance of waste and degraded resources in its wake. On the other, there are a number of advantages of cities which might render them potentially more sustainable, as affected by policy and market practices, if not sustainable in an absolute sense, than other forms of settlement. This includes economies of scale in the use of resources, the management of any resulting waste and the recycling thereof, better prospects for a shift to non-fossil fuel modes of transport and more efficient use of land (Mitlin and Sattertwaite 1996: 42–43; also e.g., Meyer 2013). Thus, allowing for the notion of outcomes being more or less sustainable – as opposed to sustainability being a binary issue of either being sustainable or not being sustainable (e.g., Berger 2014) – we may ask whether cities are a more sustainable (or at least less unsustainable) form of settlement than are others, such as rural settlements or small towns.

Posed in this way, urban solutions contributing to more sustainable/less unsustainable outcomes would qualify as improvements and, to the extent that markets contribute to this movement in the right direction as seen from the vantage point of sustainability, they would qualify as sustainable markets (e.g., Mattsson 2016a: 342–343). Whether they also allow for truly sustainable development is of course yet another issue, one that is made more complicated for the fact that there are several sustainability goals that might not be easily aligned with each other (e.g., Spaiser et al. forthcoming). Furthermore, temporal change and spatial variation in sustainability concerns need to be taken into account.

But what about urbanisation, the seemingly relentless movement from rural to urban and from small urban to larger such centres? Whether or not we put faith in the statistics that suggest that 54 per cent of the global population reside in urban areas (2014), and that the urbanisation level is poised to increase to 66 per cent by 2050 (UN 2015: 7), the issue at stake is really whether adding people to high-density settings will do more good than harm. Already today, according to a widely circulated statistic, urban areas are thought to account for more than two-thirds of humankind's use of energy and to contribute more than 70 per cent of energy-related greenhouse gas emissions (e.g., UN-Habitat 2011: 51–52), but any such calculations are fraught with uncertainty and we may in fact arrive at the opposite inference. Thus, for instance, Dodman (2009) concludes that cities have lower per capita emissions than do the countries where they are situated, while Rybski et al. (forthcoming) maintain that scaling effects might at least in developed economies make urbanisation desirable from a climate change mitigation point of view. This in part depends on whether we assess production or consumption (e.g., à la urban ecological footprints) – we should assess both – but differences in lifestyles (in part hinging on levels of income) seem to reduce any advantages urban areas might have with respect to per capita greenhouse gas emissions (e.g., Heinonen and Junnila 2011).

What we do know is that much current urban growth takes the form of adding to slums (e.g., UN 2015: 2; Eriksen 2016: Ch. 5). This is almost by definition not socially sustainable, but is also likely to contribute adversely to other dimensions of sustainability. In the high income part of the world where the utterly unfavourable conditions typically characterising informal settlements are less of problem (although they are present also there), transportation is a major source of environmental impact, but so is the building and running of the built environment itself. To the extent that we add to both population and the stock of buildings and infrastructure, urbanisation per se is not a solution but a problem. Only if the additions to existing urban areas will contribute towards reducing the overall per capita impact – urban and rural – can it be seen as positive contribution. Which is not to suggest that smart, green solutions should not be attempted; what it does suggest however is that such solutions have to be very successful to compensate for the increase in urban areas and population. The built environment, and its relative low level of plasticity, makes this more complicated still, as the turnover is low and the contribution of the new, no matter how superior, will only be of marginal significance; retrofitting of energy and other infrastructural systems, therefore, is an important adjunct to the introduction of high-performing new buildings (e.g., UNEP 2007; Onat et al. 2014; Bouzarovski 2016). The observation that construction itself contributes as much to greenhouse gas emissions as do the everyday maintenance and use of that which has been constructed (be it buildings for commercial, industrial or residential use or infrastructure), does make the introduction of new types of facilities less attractive than it might at first seem (for a Swedish example, see Liljenström et al. 2015).

That there are opportunities here that could be exploited for sustainability ends is not to be denied, though. In part, it depends on the rate of change, but in part it also depends on the qualities and characteristics of the new additions or replacements. Precisely because of the slow-changing nature of the built environment, decisions made at the time of construction will have long-term effects, and for this reason it is imperative that they meet high standards. But there is more to it than just the direct use of energy by buildings and transportation or construction materials. By way of just one example, while the connection between urbanisation and the food system, be it in terms of sourcing, food security, or consumption patterns, is not entirely straightforward, the design of urban areas may induce both less waste or its opposite, just as it may privilege car-based transport or walkability (e.g., Seto and Ramankutty 2016). Add to this the consequences of phenomena ranging from food deserts (e.g., Shaw 2006) to income and peer effects (Sakha and Grohmann 2016) and it is quite clear that the characteristics of urban areas are likely to impact overall outcomes. As such, effects can also be found in consumption and investment decisions at the level of individuals and households beyond food or the favoured mode of commuting, as for instance studies on spatial peer effects in the adoption of photovoltaic energy systems have shown (Graziano and Gillingham 2015), we may begin to appreciate that urban size as well as the rate of urbanisation, and the form that urban growth takes, might be of some consequence. Indeed, research on urban energy use suggest that the urban form itself may play a part (Holden and Norland 2005; Creutzig et al. 2015).

Thus, urbanisation may have both negative and positive sustainability consequences, and it is important to understand how policy and market practices may interact to push development in a positive direction, or in the wrong one. Here we will also point to the important, potentially growing role of civic society as affecting both policy practice and market practice, for instance by multi-stakeholder initiatives to reduce the dominance of shareholder value in market practice (e.g., Öberg et al. 2015; Mattsson 2016b).

Important as the rate of growth, size and urban form are, there is more to urbanisation than this – and the additional dimension we have in mind might make a difference when it comes to thinking about issues of sustainability. This is the case because size and form are often used as independent variables in assessing the degree to which localities, activities and, not least, the behaviour and proclivities of urbanites have an impact on sustainability outcomes. Yet urban centres must not be thought of as isolated entities, or at most as entities sitting at the centre of an urban hinterland. Whether large or small, increasing in size or declining, urban centres are also bound together in a dynamic system of interaction at the core of which we find a division of labour, or sorting, which reflects the differentiated ability of firms and economic activities to weather the likewise differentiated costs across the urban hierarchy; this in turn suggests that resource heterogeneity within markets and across market networks are relevant to urbanisation processes. We are accustomed to thinking about urban hierarchies in terms of population size distributions or administrative functions, but also as seen from the vantage point of economic structure, urban places differ in a regular and systematic fashion. Not only are cities typically the home to a wider range of economic activities and industries than are towns and smaller settlements, and often offer both wider and deeper labour markets (i.e., a broader range of occupations with a larger number of positions within each, respectively), but over time they tend to see a succession of activities.

It is useful to think about this in terms of the product or industry cycle, which incidentally was first formulated based on observations in one of the great metropolitan centres of the world, New York (Vernon 1966: 196). The larger the centre, the more likely the place of origin for new industries (greater innovative prowess, better market conditions, a wider pool of not just entrepreneurs but also professionals and skilled workers, etc.), but as competition starts to erode the earning power of pioneering firms, they are induced to look for new locations of production. Much can be said about this 'settlement-size, industrial sorting process' (Moriarty 1991: 1573), suffice it here to note that the process of relocation of incumbents, and the replacement of incumbent firms and industries by others, has a long history and seems to be a trait common in market economies (for a recent review, see e.g., Hagström and Sjöberg 2015). Underlying this process are productivity and earning capacity – high levels of either one of which, or both, are required to weather high levels of costs and/or competition from as yet more successful firms and industries. The result is a process of filtering or sorting across the urban hierarchy, as reinforced, if we accept the argument by Sassen (2001), by a process of centralisation of capital and ownership.

At the level of the individual, and at least when disregarding any intra-city social polarisation as might result (e.g., Sassen 2001: Ch. 9; but also Nørgaard 2003), this translates into higher wages and perhaps also an urban wage premium reflecting the existence of agglomeration economies and learning effects (Glaeser and Maré 2001; Puga 2010). Put differently, it does not come as a surprise that larger urban centres are not only more likely to see a greater demand for local transportation services but are also likely to support a different set of lifestyles and patterns of consumption than do smaller urban centres, where incomes for the most part are lower (as are, quite likely, the level of education and other similar expressions of sorting; Shapiro 2006; Eeckhout et al. 2014). This has implications for anyone taking an interest in urban sustainability, including the role that markets serving the various communities that make up the urban archipelago might play in furthering sustainability goals. One such implication, which can both be a threat to sustainability but also a part of the solution, is the nature and diffusion of ideas. Irrespective of where they originate, there is a tendency for new ideas and fashions to spread across the urban system from the top down. This form of expansion diffusion is known as hierarchical diffusion (Gould 1969): once something takes hold, it subsequently filters from the source through the urban hierarchy. Another form of expansion diffusion, labelled contagious, is perhaps more likely within an urban area. In either case, more or less sustainable lifestyles and patterns of consumption might therefore take hold in ever wider circles, geographically and socially, once they have come to be seen as desirable beyond the source of origin. The role of markets, but also the opportunities to create and shape markets, in allowing for emulation across groups of consumers should not be neglected.

As seen from the vantage point of sustainable markets, the argument set out so far has further implications. For one thing, it helps define the markets where our analysis might usefully begin. Two that immediately can be identified as being of critical importance are the markets for real estate – be it industrial, commercial, or residential – and labour. With the former comes an equally immediate connection to capital markets in their various guises, with the latter a link not only to real estate in the form of places of work and housing but also to consumer markets and transport services. Energy markets therefore are another candidate for our attention, as are those of construction materials and the systems put in place to supply the necessary physical and social infrastructure, including that for managing waste. Depending on the objective of the research, the analysis can be driven quite far. Also, if we restrict ourselves to the dominating framework in economic theory, defining a market as supply from a specific "industry" and demand for this supply (architectural services, transport equipment, building contractors) it is evident that building projects, of both traditional and innovative nature, involve output from all these industries and many more.

The forms and tools of governance are a natural adjunct to such observations. Similarly, policies that leverage markets, or influence them one way or another by means of the rules they set or the norms they embody, are as a result of importance. But not least in an urban setting, we also need to think of policy practices that are integral to the implementation of governance structures and mechanisms. This includes land administration and town planning, both in their capacities as policy tools and a focal point of professional practices. Not only is urban (re)development typically a project-based activity, which crucially depends on the availability of land and its qualities (such as location), the process of real property formation links owner, property rights and markets in land and buildings in a structured process. As well as setting the conditions for the establishment and transfer of titles, along with planning itself, this process is furthermore part and parcel of any transformation of the use of real estate as might be permitted. Since all these practices differ across countries and time (for the Nordic countries, see Kort og Matrikelstyrelsen 2006; Mattsson 2011), the specific setting is critical, but this is also true of institutional arrangements more generally.

Urban markets

So far, in addition to having outlined the options in defining a sustainable (as opposed to an unsustainable) market, we have also identified the markets which it would be useful to set out from. This should allow us to begin discussing the role of urbanisation and the role of markets in urban sustainability outcomes.

As already made clear in the previous section, 'well-functioning markets depend on detailed rules' as one of the pioneers of market design has put it (Roth 2007: 118); these rules, which combined can be thought of as making up the institutional environment, result in an institutional arrangement (in this case a market) which assumes a specific form and method of operation depending on the nature of the set of rules and norms that pertain. With rules and norms also come enforcement characteristics and thus any (threat of) sanctions as might be applicable. There are many examples of how public monopolies in services sectors (like telecom, schools, health care) have been abolished and markets have been shaped and reshaped, involving not deregulation but reregulation. Sorting out what these rules are is largely an empirical issue, ideally to be arrived at through 'a deep, substantive understanding of the domain at hand' (Reiss 2016: 298). But since theorising is important in policy practices (cf. various aspects of competition laws) to make relevant inferences it is equally important to consider the possibilities of additional precisions as to what markets are.

Markets perform more than resource allocation. Markets also may perform innovation and (co)create value. In market practice, present exchange practice and deployment of new business models will affect prices, as well as the interdependence between markets and in turn sustainability. Markets are shaped and reshaped, also subject to the strategy on the part of participating agents. By way of an example, contemporary developments in the application of information and communications technology such as the role of technical platforms that serve to change business models for service providers might have an effect on sustainable development in urban areas (Andersson and Mattsson 2015).

On the basis of this understanding, we will now turn to an example illuminating what an analysis of sustainable markets might entail. We have selected the notion of sustainable cities as the starting point, using the policies and developments on the ground within the City of Stockholm. As such, our material primarily deals with the impact of policy decisions and policy practice on markets and their contribution to sustainable outcomes; material outcomes of influences in the opposite direction are of course also conceivable and relevant. The case highlights the technical opportunities for improved sustainability performance that primarily digital technologies afford, and the problématique of fitting it into a pre-existing environment, but also illustrates the importance of recognising that ambitious targets and successfully executed strategies and plans are products of their time. It also indicative of how various interests might be entangled.

Smart sustainable city, Stockholm style: A green municipality leading the way?

In 2010, Stockholm assumed the role as the European Green Capital, the first one ever. At once both rewarding cities for past performance in terms of attaining high environmental objectives and encouraging them to aim for ambitious goals in the field of sustainable development for the future, the Green Capitals of Europe are to set an inspiring example thereby promoting the adoption of best practices. The focus is very much on environmental issues, with climate impact and environmental management being core concerns. Not surprisingly, other sustainability goals are pushed into the background, 'eco-innovation and sustainable employment' just about being the only area where environmental concerns are matched by social sustainability. Yet, in reports and promotional material published by the city, this is often – be it by design or not – equated with sustainable urban development, or more specifically 'Stockholm's approach to sustainable urban development' (e.g., Stockholms stad 2011: 30) is suggested to be environmental sustainability and little else. Does this imply that other sustainability goals are irrelevant, already achieved, or expected to follow from "green" achievements? This is the first question we ask in this short section, the second one being if initiatives launched depend on administrative or planning practices in their entirety or whether markets are leveraged in some way (e.g., through procurement strategies or incentives).

It might be unfair to criticise the city for not being ambitious enough or not putting equal emphasis on the full range of sustainability goals. Sweden, including its capital, is after all a relatively egalitarian society which has made environmental stewardship a priority. This is evident not least in Stockholm, which has earned high marks in a variety of competitions and evaluations (e.g., Floater et al. 2013; Stockholm stad 2015a: 17). However, it is not just that other sustainability goals have until recently been left outside the scope of the main sustainability strategy of the city. Also, or so critics remark, the environmental perspective is narrow in the sense that greenhouse emissions are only taken into account if produced in Stockholm (Axelsson 2012), energy efficiency of buildings in use takes the upper hand relative the consequences of construction itself (Lind et al. 2013) and there is little sense of how to prioritise across a large number of desirable interventions (Hårsman and Wijkmark 2013). As a result, even though mobility issues figure quite prominently (there is a mobility strategy, just as there is a climate strategy) and although some documents acknowledge the importance of retrofitting (e.g., Stockholm stad 2015a: 12–14), one easily gains the impression that two new urban districts alone will be able to make all of Stockholm environmentally friendly. Similarly, although the main current policy document as approved 19 October 2015, the Vision 2040, carrying the title *Ett Stockholm för alla* (A Stockholm for everyone), does in fact discuss social and economic sustainability – indeed it aims at an inclusive, financially and democratically sustainable city (Stockholm stad 2015b) – as does the current city plan (Stockholm 2010a; a new one is expected in late 2016), there is no indication or acknowledgement that there might be important and potentially unresolvable trade-offs at play, nor that policy practices and market practices, or the interaction between the two, matter. The potential importance of civil society representation in multiple stakeholder initiatives as efforts to bridge policy and market practice is not acknowledged in these reports (cf. Öberg et al. 2016). In that sense, the notion of green fixes seems equally relevant to Stockholm as to other cities in the country where environmental programmes have been vigorously promoted in policy documents (as in, e.g., Malmö; Holgersen and Malm 2015).

It is not that Stockholm is oblivious to other potential interventions. As per the same strategic vision document, Stockholm is also to be 'the smartest city in the world 2040', which includes considerations of economic, ecological, social and democratic sustainability. And the budget for 2015 readily acknowledged the urgency of building a socially inclusive and sustainable city, with a commission set up for that purpose (Stockholm stad 2014a) and a number of background reports having been commissioned (e.g., Dahlin 2015; Legeby et al. 2015). So far, however, just as is the case with the environment being the main focus for its initiatives on sustainability, arguably the most prominent aspect of a smart Stockholm is the focus on digitalisation and (at least up to a few years ago) "green IT", with the municipality also priding itself on being the largest supplier of open data in the country (Stockholm stad 2016).

For now, most initiatives in the area of digitalisation focus on the physical infrastructure needed for it (through AB Stokab, owned by the holding company of the City of Stockholm, Stockholms Stadshus AB) and the use of digital solutions in municipal activities. This adds to the environmental solutions tried out in the brownfield redevelopment zones of Hammarby Sjöstad, launched in the mid-1990s, and Norra Djurgårdsstaden, started in 2011 and promoted internationally as Stockholm Royal Seaport (a third one, Västra Liljeholmen/Lövholmen, is part of the general plan for Stockholm; Stockholms stad 2010a). In addition to this, the GrowSmarter project, funded by the EU, includes Stockholm as one of three "Lighthouse cities" (the other two being Barcelona and Cologne) which are to try out new technological solutions in the areas of energy, mobility and infrastructure, the reduction of emissions being the key objective. In Stockholm's case, the district of Årsta has been selected as the primary site.

All of this is no doubt needed, because, as has been pointed out by Bradley et al. (2013: 178), the ecological footprints of Stockholmers compare unfavourably with those of the rest of the country's population. The prospects for achieving some success in changing this might not be that easily forthcoming, however, not only because the impact of these laudable initiatives has yet to move from relatively small-scale projects to the city as a whole, but also because the unidimensional focus on technical solutions to the exclusion both of other sustainability goals and the limits of technical solutions that take current patterns of consumption as a given. It is as if all problems are solved by engineering. True to form, the new residential areas Hammarby Sjöstad and Norra Djurgårdsstaden have typically been promoted as a good fit with Stockholmers' preferred lifestyles, primarily because of the ease with which residents can act sustainably.

Such solutions, which decidedly can help cities reduce their climate impact, appear to be particularly useful in the operation of transport and the heating of buildings (e.g., Kramers et al. 2014) and could as such no doubt find support among smart city initiatives in general. The Stockholm version of this, as espoused by the "green IT" programme and the "e-strategy" of the city (Stockholm stad 2010c and 2013, respectively), has focused on improving the energy efficiency of IT systems themselves and on leveraging IT for more sustainable solutions compared to the status quo. Thus, actions are restricted to the municipal administration and the companies controlled by the city itself (e.g., AB Familjebostäder, AB Stockholmshem, AB Svenska Bostäder, Micasa Fastigheter i Stockholm AB, Skolfastigheter i Stockholm AB, and Stockholm Globe Arena Fastigheter AB in the area of real estate), not beyond.

This is also true, at least initially, as regards the solutions for the intelligent transport systems that the city promotes. In either case, the use of procurement as a tool for achieving sustainability goals through markets is recognised, but unless it leads to changes in those markets or some form of demonstration effects, the impact does not extend to the city in its entirety.

Another item of the green IT strategy, strategic transport planning, does have that capacity. Yet, other than Stockholmsförsöket (the Stockholm trial) on congestion charging initiated in 2003 and now made permanent (see e.g., Congestion Charge Secretariat 2006; Eliasson 2014 and the literature cited therein), city-wide initiatives have been rather low-key and evaluation results have been not widely disseminated. And while quite a few companies, including IBM, which delivered a significant part of the systems needed for implementing congestion charges, have been involved, there is no systematic evidence that public procurement has had widespread effects on the business sector's mode of operations (but then, at least to the best of our knowledge, there appears to be little evaluation of any such effects that might have materialised).

The auditing commission of the municipal authorities, Stadsrevisionen, has not as far as we are aware specifically looked into the IT strategy of the city, of which the green IT strategy is now (a seemingly rather minor) part, but then the current version of the strategy, Digital förnyelse (Digital renewal), has not run its course (Stockholms stad 2013). The procurement policy in general – as noted above, an important part of the green IT strategy – has been scrutinised by the commission, but it notes that the opportunity for procuring innovative solutions has barely been used. The one case mentioned relates to the removal of construction waste in Norra Djurgårdsstaden, but then the possibility of such objectives is a very new element of the procurement policy (Stockholms stad 2014b). As for environmental policies and the assessment of environmental impact, policies and routines are said to be in place, but follow-up and evaluation are not systematically conducted (Stockholms stad 2015c). This is also the assessment with respect to improved energy efficiency in the real estate sector under the control of the municipal authorities conducted a few years earlier: goals have partly been met, but not in full, and evaluation and follow-up still leave quite a lot to be desired (Stockholms stad 2010b). What would be of particular interest is if it could be shown to have spawned a response amongst entrepreneurs and, if so, whether this also implies that new markets have been or are in the process of being created.

As for the environmental initiatives created by the development of new urban districts, the results appear mixed. For even as Hammarby Sjöstad has been hailed as a truly innovative eco-district, and as such it has received much attention nationally and internationally, assessments as exist are not universally impressed. Thus, to the extent that the achievements of Hammarby Sjöstad can be evaluated, Pandis Iverot and Brandt (2011) suggest that it has been successful relative its environmental objectives (metabolic flows have been reduced in comparison with other districts), but the evaluation is rendered difficult because not all goals as originally set are matched by valid and reliable data with which to conduct the assessment. Individual parts of the efforts to build advanced systems allowing for substantially reduced impacts, such as in water management, have been evaluated in greater detail; while generally positive, and with important lessons for the future, the picture is somewhat mixed, not least when trade-offs between environmental effects and financial considerations have to be taken into account (e.g., Hellström 2005). Also at a more general level, conflicts with respect to environmental management goals have been identified (Svane 2008) and Rutherford (2008: 1878) notes that along the way non-environmental sustainability goals, such as social integration, were dropped altogether. Thereby the focus shifted still more firmly onto the environmental, where energy efficiency and recycling have taken pride of place.

As for the other major eco-district, Norra Djurgårdsstaden, it is simply too new to have generated much in the way of evaluations, at least of the academic variety. However, Svane et al. (2011) report that some important learning generated by the Hammarby Sjöstad brownfield development fed into the designs for Norra Djurgårdsstaden. This is at once both salutary and serves to underline that we need to see developments in context, not least time-wise (both with respect to timing and sequence). All projects, no matter how ambitious and successful, are likely to reflect the knowledge and priorities of the time. It also appears that this transfer of experience and insight is not primarily carried out through the intermediation of market, but rather as an outcome of planning practice; at most, they are imposed on markets.

Given all of this, and given our focus on how policy practice and market practice interacts to promote sustainable development, one may therefore well ask, why market practice is not explicitly part of the narrative or analyses to any important extent. Does it not have a role in these developments? Neither the smart city nor the eco-districts are purely public-sector affairs, not least because a large number of private-sector contractors, embedded in market networks, have taken part in the developments. Even so, positive effects – favourable sustainability impacts, provision of public goods – seem to issue primarily from policy practice. There are many business firms that have taken advantage of the benefits that new technologies afford, including IT solutions and big data. Such technologies are to an important extent developed in and applied in market networks for business purposes. It may or may not promote sustainable development; it is really an empirical issue, as is also the case with the beneficial effects, or otherwise, of policy solutions and interventions. Yet there is no denying that market practices can come into conflict with policy practice. An example, to be found in Hammarby Sjöstad, is the reaction of building contractors to the environmental goals set by the city. The reaction was often negative – the goals were simply too ambitious, technically complex and expensive given the size of the project – and this despite the fact that contractors had a considerable say in choosing the technologies and technical solutions to be used as long as they achieved the set goals, and at times the chosen technologies offered support in the form of subsidies (e.g., Bylund 2006; Green 2006).

This could be, one might assume, a result of the cost of moving away from the tried and tested mode of operation, but also because of the uncertainty of being able to make use of such investment for future projects. Not only is there a temporal dimension that might imply a change of focus or priorities; the ability to use the new solutions in other development projects across the wider urban hierarchy is not self-evident. On a more positive note, the developments of eco-districts in Stockholm appear to have led to an expansion of the cleantech sector locally (Weber and Reardon 2015); if so, this is in line with other recent findings elsewhere in Sweden where municipal initiatives with respect the development of green services do spill over to the for-profit sector (Hermelin 2016). Firms involved in the quite diversified cleantech industry might be able to disseminate and further develop technologies aimed at sustainable development, in interaction with other market actors. Thus, local policy practice might help strengthen market practice for sustainable development outside the local area.

So where does this take us?

Time and again in our inquiries of the literature, we have found disagreements about whether urbanisation is good or bad for sustainable development and if and how specific policies lead to its desired outcome. We would even argue that there is a distinct lack of serious discussion of the role of markets in terms of the sustainability outcomes of urbanisation and how policies interact with markets towards sustainability ends.

Markets are complicated phenomena, at quite some remove from the demand and supply schedules of introductory economics. It is not that demand and supply, and the market as a price making and allocation mechanism, do not matter – they certainly do, not least in an urban setting, as everything from lifestyle-induced patterns of consumption to the supply of urban living space and infrastructure bear witness to – but in order to assess the role of markets in sustainability outcomes, we need to move beyond that.

To this end we have adopted a practice framework, in which policy practice interacts with market practice. We have highlighted the fact that markets do not operate in isolation from other markets and that policies to address sustainable development need to interact with markets for markets to promote sustainable development. Also, individual policies are not isolated from other policies that might support or counteract the focused policy. The empirical question of whether markets are good or bad for sustainable development needs to be handled in a suitable conceptual framework.

Yet, even if the sustainability outcomes of markets interacting with urbanisation could be established with a measure of confidence, the mere fact of being better than the alternative is not to be equated with being good enough. It might represent an improvement over other options, but it might only serve to put off the inevitable for some (undisclosed amount of) time; indeed, as Brooks (2016: 119) recently has argued, it might not even be a problem that can be solved: 'a future environmental catastrophe is an event we might at best postpone, but not avoid.' If urban areas are the 'entropic black holes' that Rees (2012: 261) suggest they are, sustainable markets understood as markets that improve upon the status quo will be of little consequence, at least in so far as they are conceived as devices for achieving less unsustainable outcomes. Instead, it would lead to the question, what would sustainable markets that allow for true sustainability look like?

Conflicting sets of goals and priorities also serve to highlight that interests, be they material or ideational, matter. Without entering that debate, looking forward, we should perhaps think of sustainable markets in terms not only of the potentially conflicting goals of the sustainability agenda, irrespective of it being approached from the (somewhat worn?) perspective of the Brundtland report or from the current sustainable development goals, the SDG 2030. In addition to that we might benefit from thinking, as does Brooks, in terms of the dual agenda of conservation and adaptation. Add to this that the market, sustainable or not, is as much a process as a place (or 'place') where buyers, sellers and other market actors meet. Market practices and policy practices capture the market as well as non-market dimensions of actions that might impact market behaviour and its effects on sustainable development. By way of some examples, and just for training our thoughts with respect to sustainability, is it a question of how to go about inducing less wasteful uses of both non-renewable and renewable resources? If so, what role could markets play – and what is it that they cannot do? Or is it rather an issue of immediately pushing for sustainability in some absolute sense? If so, would there be a role for markets at all? However, since we live in a market economy, it is the role of policy practice to interact with market practice to make it matter. It would be a case of being zealots to a fault, doing nothing simply because we cannot achieve the ultimate goal with the insights, tools and resources currently at hand. In the meantime, it is an issue of how we are to mitigate the effects of processes that have already been triggered but also those that might result from our attempts to find workable compromises under conditions of uncertainty with respect to outcomes.

As a result, the manner in which actors consciously go about creating and shaping markets, and also the very performativity of markets, both come across as important inputs to our understanding of how sustainable markets work and the effects they might have. Here we have a long way to go, but we have also emphasised that we need to consider the parallel and interacting case of policy practices and how they might influence the workings and effects of markets in terms of sustainability criteria, before we might be able to successfully address the issues of origin and outcomes. The case of Hammarby Sjöstad, which has attracted at considerable amount of attention, reinforces our observation that the interaction between policy practice (what is done, not only what is said in policy documents) and changes in market practice is hardly ever treated.

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CHAPTER 4

Sustainability – a popular management idea

MATS JUTTERSTRÖM

Introduction

A general trend within science is that the studied subjects are seen as exclusively in need of their own special theories, concepts and models. The European Union, Balanced Scorecard, states, visions, international organizations, etc., are basically perceived as something unique, clearly delimited from other social phenomena (e.g., Ahrne 1998). Sustainability – the subject of this book – is a significant example of the tendency above. The concept of sustainability[1], and its somewhat synonymous labels CSR (corporate social responsibility), SR (social responsibility), CR (corporate responsibility), and others, have recently become established as a necessity for more or less all organizations. Much has been written about these emergent concepts. We now have a sustainability literature largely, and remarkably often without reflection, mediating an image of uniqueness and delimitation.

The main argument of this chapter is, however, that much can be gained by seeing sustainability as an example of something more general. By seeing sustainability as *an example of something* we can increase our understanding of what the concept implies for business firms and other organizations. This is not only of theoretical value, but also of a practical value. It can contribute to an enhanced understanding among individuals in the processes of operationalizing sustainability – that is, those who are moving from discussing a rather vague overarching idea to the transformation of daily business operations

1 I will here define sustainability as an organization's responsibility for three areas: the environment, working conditions and human rights. While there are also other definitions and much conceptual confusion (Matten and Moon 2008), this definition is used by many practitioners and is reflected in widely diffused sustainability standards such as the UN Global Compact.

and products. In other words, who are going from talking to taking responsibility.

This chapter proposes that sustainability is an example of a management idea: a model for governing organizations. Accordingly, the argument here is that the prerequisites and mechanisms for other management ideas also largely apply to sustainability. Further, sustainability represents a particular kind of management idea, the category of management ideas that gain extensive popularity and diffusion worldwide. I shall refer to this category as *popular management ideas* (cf. Abrahamson 1996; Røvik 2002; Sturdy 2004). Other examples of management ideas that have reached significant diffusion and currency among organizations in recent decades are: *just-in-time* (e.g., Hutchins 1999), *business process re-engineering* (e.g., Hammer and Champy 1993), *lean production* (e.g., Pascal 2002), *outsourcing* (e.g., Oates 1998), *time-based management* (e.g., Stalk and Hout 1990), *matrix structure* (e.g., Burns and Wholey 1993), *total quality management* (e.g., Oakland 1993), *activity-based costing* (e.g., Cooper and Kaplan 1991), *Six Sigma* (e.g., Tennant 2001), *lean startup* (e.g., Blank 2013) and *balanced scorecard* (e.g., Kaplan and Norton 1999).

As illustrated in this chapter, there are many generic similarities between sustainability and other popular management ideas. As in the case of the other examples, sustainability: is produced to apply to a multitude of organizations; is expressed in forms of a particular kind of rule, the standard; is largely disseminated by consultants who want to profit from the concept; meets certain kinds of challenges on the managerial level in organizations, when implemented, and when used in daily operations. These different aspects constitute significant parts of the operationalization of the concept – production, diffusion, managerial decision-making, implementation and usage. On a general level, these aspects have long been studied by organizational scholars, and the chapter makes use of this literature to illustrate the similarities between management ideas.

However, even though there are considerable similarities that may contribute to our understanding of sustainability, it is relevant to ask whether it is only a question of similarities. Does sustainability represent something special, something that distinguishes it from other managerial concepts of how organizations should change and operate their businesses? To put sustainability in the same category as, for example, *just-in-time* and *balanced scorecard* may perhaps even provoke some readers. Anticipating this objection, a second purpose of the chapter is to investigate potential differences between sustainability and other popular management ideas on a more nuanced level. In the chapter, I thereby try to avoid binary standpoints, instead adding a more nuanced perspective to the basic similarity argument by discussing its limits. Regarding data on the operationalization of sustainability in the analysis, it is largely based on qualitative case studies (Jutterström and Norberg 2011, 2013) conducted by several researchers – Matilda Ardenfors, Tommy Borglund, Niklas Egels-Zandén, Magnus Frostenson, Staffan Furusten, Mats Jutterström, Markus Kallifatides, Peter Norberg, Sabine Walter and Andreas Werr – many of them active at the Stockholm School of Economics.

The chapter is structured as follows. First, I illustrate that management ideas – sustainability and others – are rule-based, expressed as standards, and subject to fashion. Then, the emergence and diffusion of management ideas is discussed, as well as what tends to happen to them when diffused. After that, I turn to the question of how popular management ideas affect organizations, as well as to common problems of implementation. The chapter ends by summarizing the similarities and briefly describing some significant differences concerning sustainability – for example regarding the level of conflict at managerial levels when dealing with sustainability, and the role of external organization (rules, monitoring, sanctions, etc.) outside individual organizations.

Popular management ideas

MANAGEMENT IDEAS INVOLVE RULES

Sustainability, like other popular management ideas, is largely constructed in the form of rules for what to do, how to do it, etc. Rules constitute a generic element for trying to organize something. When many follow the same rules, this creates similarity and homogeneity, even among people or organizations far away from each other. Rules are often, but far from always, accompanied with other generic elements of organization: monitoring, sanctions, hierarchy and membership (Ahrne and Brunsson 2011). To what extent rules should be accompanied by other elements of organization – for example, monitoring and sanctions – is much debated in the case of sustainability.

Management ideas are usually expressed as a particular type of rule: the standard – that is, written rules where compliance is formally voluntary. Hence, management ideas are not binding, like laws and other directives.

Neither are they unwritten, like norms, but are usually documented (cf. Brunsson and Jacobsson 1998). Standards and directives are decided upon, in contrast to norms, making processes of decision-making important to understand the characteristics of, for example, sustainability standards (see Tamm Hallström 2004). In the case of sustainability, society clearly comprises many directives and norms concerning the environment, working conditions and human rights. But among practitioners, compliance to them are seldom referred to as sustainability. Sustainability concerns adaptation to written rules with higher ambitions than laws – non-criminal organizations are not automatically sustainable.

Here, it is important to note that the voluntary aspect of standards applies to organizations, but not to their members and employees. Once an organization has decided to introduce sustainability, or some other management idea, compliance with the rules is no longer voluntary for the members of the organization. Within the organization, the standard has become a directive. This also includes states, if we see them as organizations (Ahrne *ibid*). For example, the Swedish state has decided that some of its members, the state-owned companies, must follow certain sustainability standards (Borglund 2010).

Rules for how companies should operate their businesses vary in strength. What distinguishes a strong, or institutionalized, rule is that we take it for granted (Jepperson 1991). It is seen as a successful or obvious way of doing things. A sign that a rule, for example, a management idea, is strong is that it is difficult to criticize – even when there may be reasonable grounds for questioning how well it suits a particular organization. As with other popular management ideas exemplified above – for some time, at least – sustainability has attained a relatively high degree of institutionalization. It is becoming increasingly difficult, especially for large corporations, to choose not to pursue sustainability. Companies that deviate from this concept are often required to explain themselves, which is not always easy.

Rules can also differ based on whether they obtain widespread or more limited diffusion. Management ideas such as sustainability, outsourcing, just-in-time and balanced scorecard resemble one another in that they have attained rapid diffusion in the business world. The relatively high degree of institutionalization and diffusion are two basic features that unite many management ideas, sustainability and others.

MANAGEMENT IDEAS AS FASHION

Organizations are under a great deal of pressure to conform to what are generally regarded as the 'right' contemporary ideas. However, many management ideas quickly lose popularity and are replaced by new ones. A key explanation for such changes is that many ideas have the characteristics of fashions (Abrahamson 1996; Røvik 1996). Following a rapid rise to popularity, they generally begin to be perceived as passé. Which management ideas are seen as being right for organizations thus changes over time.

Fashion has two contradictory functions. It helps observers differentiate between organizations; that is, it allows us to distinguish between organizations that quickly embrace new organizational fashions and those that do not. At the same time, fashion makes organizations more alike, as more and more of them begin to follow the same popular management idea (Forssell 1999). Thus the necessity for organizations to reflect current trends and not seem outdated leads to many organizations portraying themselves in similar ways.

Business firms and other organizations also encounter demands of having their own identity, of being unique and of finding a niche in relation to other organizations. Identity becomes a fundamental characteristic of what it means to be a 'real' organization (Meyer and Jepperson 2000; Brunsson and Sahlin-Andersson 2000; Jutterström 2004). Some companies handle this dilemma between the demands for conformity versus differentiation by affixing their own labels to popular management ideas (Røvik 1998; Furusten 1999). The content of what they do may be similar to that of most organizations, but on the surface it is depicted as different. Companies can thereby portray themselves as both modern and unique. One example of this is ABB's T50 programme, founded on the idea of time-based management (TBM), which became popular in the early 1990s. Another example is IKEA's sustainability standard IWAY, introduced in 2000.

Companies and other organizations are constantly looking for new management ideas to show that they keep up with the trends or to try new approaches to perceived problems that old ideas have failed to solve (Barley and Kunda 1992; Brunsson and Olsen 1993). But it is not just the demand for new ideas that drives changes in management fashion. Consultants, gurus, authors of management books and so on – that is, the 'supply side' of management ideas – also make a great deal of money from the continual introduction of seemingly new management ideas that companies need help to learn, implement and so on. The reuse of old management ideas is common, but to be attractive, the ideas must not appear old-fashioned or obsolete. Recycling old ideas therefore often involves dressing them in new language (Røvik 1998; Hood and Jackson 1991): the label is new but the content is largely proven. As with other management idea labels, sustainability or CSR thus represent a contemporary 'package' of a much more long-lived content: business ethics. If the particular labels lose popularity, it is likely that other popular variants and abbreviations would arise to handle similar issues.

Not all management ideas follow fashion logic, however. Some ideas obtain a higher and far more lasting degree of institutionalization. Over time they become established, stable management tools. One example of this is the 'budget', a management idea that, despite its questionable efficiency, has long been an integral management model for organizations (Wallander 1994). A relevant question is why some ideas follow fashion logic and others become institutionalized (Czarniawska and Joerges 1996). Explanations for this are not necessarily functional; that is, management ideas that survive in the long term would be those that prove to be efficient. Barbara Czarniawska and Bernward Joerges (*ibid*: 25) raise another possible explanation: the ideas that can be presented as something natural for organizations and their activities are in fact those that have the potential to survive in the long term. Another explanation is that the amount of organization that emerges from a management idea is a determinant of whether the idea becomes short- or long-lived (e.g., Furusten 2002). Management ideas such as total quality management (TQM) and sustainability may be assigned new government agencies and university professorships to promote them, and different types of international organizations can emerge to support them, which increases the potential for these ideas to prevail.

WHERE DO MANAGEMENT IDEAS COME FROM?

Björkman (1997) describes that the four big management ideas of the 1990s – lean production, total quality management (TQM), time-based management (TBM) and business process re-engineering (BPR) – were all formulated in the US. More precisely, Boston, Massachusetts, is the source of many of these ideas, as central a location for the development of management ideas as Hollywood is for movie-making. The region around Boston is home to many prestigious universities, such as Harvard and MIT. It is also home to many of the world's multinational management consulting headquarters or major hubs, including McKinsey, Boston Consulting Group, Arthur D. Little and Accenture. The global market for management ideas is dominated by a handful of big consulting firms (Sahlin-Andersson and Engwall 2002). New management ideas are often launched by people with ties to both high-status universities and large consulting firms.

In and around Boston, many modern management ideas are conceptualized and labelled; they are designed to serve as a clear and easy-to-sell product in a market (Czarniawska and Joerges 1996; Røvik 2000). The content of the ideas, however, may come from many other places. Björkman (1997) points out that much of the inspiration for later, US-developed, management ideas came from Japanese industry of the 1980s. Sahlin-Andersson and Engwall (2002) employ the concept of 'creolization' to emphasize that the content of ideas tends to have many and mixed origins, when it comes to both geographical origin and academic disciplines. All in all, the question of where popular management ideas are conceptualized is generally easier to answer than from where they originate.

Many organizations can be involved in settings where the forming and re-forming of 'new' management ideas occur. As mentioned above, this is not only done by consultants and universities, but also takes place in government agencies and other organizations, as in the case of TQM (Furusten 2002). John Meyer (1996) refers to these organizations as 'others', with the main purpose of influencing the activities of other organizations rather than their own. In doing so, they distinguish themselves from, not least, manufacturing firms.

WHEN MANAGEMENT IDEAS DIFFUSE

There are many who spread management ideas in society. Sahlin-Andersson and Engwall (2002) identify three main categories of carriers: consultants, the business press and business schools. They interact with each other, but also with the practices in the companies that the ideas target (Engwall 1999). Management consultants assume a more active role than the other two. They orchestrate companies more directly, whereas the business press and business schools are occupied more with reporting and analysing developments. Furusten, Werr, Ardenfors and Walter (2011, 2013) describe how a broad range of 'suppliers' of organizational recipes flocked around the increasingly popular labels of sustainability and CSR in Sweden during the first decade of the new millennium – a common situation for management ideas on the rise.

Management ideas are not stable entities as they diffuse. The distance between the transmitter and the receiver, for example, between one country and another, means that ideas tend to be edited along the way (Sahlin-Andersson 1996): only the general and overall gist of them is spread. The ideas become context-less, resulting in changes to their focus, content and meaning. Those who disseminate management ideas play both active and passive roles in these changes (Czarniawska and Joerges 1996).

Management ideas are disseminated to more and more organizations around the world. This had led to increased managerialism; that is, widely varying activities in society have come to be defined as organizations and as such require management concepts (Pollitt 1990; Brunsson and Sahlin-Andersson 2000, Bromley and Meyer 2015). More and more organizations have become receptive to the management ideas that flourish in their surroundings. This applies not least to organizations in the public sector. One example is the idea of time-based management (TBM). In Sweden, organizations such as the Passport Police and Karolinska Hospital began using this idea in an attempt to reduce processing times; with its embrace of TBM, Västmanland County Council started to promote itself as 'the fast county' (Björkman 1997). Another example is management by objectives (MBO), a concept that most Swedish municipalities were using in the late 1980s (Hansson and Knutsson 1991). Sustainability is, for example, also widely applied by organizations in the public sector, although it has traditionally been associated with the domain of business firms.

WHY DO SOME MANAGEMENT IDEAS BECOME POPULAR?

What then determines whether a management idea will become popular or not? Kjell-Arne Røvik (2000, 2002) presents and discusses different answers to that question, potential explanations for the emergence of 'super-standards', as he calls them.

One theory of why certain ideas become popular is the 'instrumental-rational' theory. This theory posits that the ideas that become the most widely diffused are those that prove best suited as a tool for achieving desired results from a technical-economic standpoint. Rational explanations such as these are widespread in modern society, and are common – not least – in the management literature (that is, in all those books that tell us what we should do and how we should do it, usually easy to find in airport bookstores). But while some ideas may work well in individual businesses, it is difficult to find empirical studies that convincingly show the general strength of rational theory. Rather, there are many examples of the opposite. Ideas and concepts can become widely diffused despite not being specifically useful for improving efficiency in practice, or despite other ideas being more effective (Brunsson and Jacobsson 2000). A second theory notes the symbolic value of the management ideas that spread. The ideas that become popular are those whose 'time has come' – that is, those that reflect widely shared contemporary values about what organizations should look like, how they should design their activities and products, and so on. Only ideas that are perceived as modern – that is, for which the time is right – can attain popularity according to this perspective, which sees the ability of organizations to stand against these ideas as limited (Meyer and Rowan 1977; Scott and Meyer 1994; Meyer and Jepperson 2000). While sustainability can at the general level be described as an idea whose time has come, this theory does not, however, help us to explain differences in the nature and diffusion of the numerous different sustainability standards that organizations may follow (e.g., Jutterström 2011, 2013).

Røvik (2000, 2002) has argued for a third, more nuanced theory of why some rules spread widely and quickly. Instead of explaining the popularity of rules in terms of how rational they are from a technical-economic standpoint, or by how 'well timed' they are, Røvik takes a more in-depth look at the general features characterizing the rules that obtain wide and rapid diffusion. He claims that seven such characteristics determine their popularity. Rules that spread quickly over great distances are: backed by an authoritative centre; presented as a universal recipe for success for all types of business; refined and adapted so that they are perceived as user-friendly and easily sold in a market; portrayed as something modern and new; perceived as good for all entities within the organization; given a sensationalized development history; and depicted as positive for the career and development of individual organization members. Simplicity is key for the ideas to attract many proponents, as in the case of the simple and widely diffused UN Global Compact sustainability standard (Jamali 2010). Simple concepts make for attractive options for the everyday complexities of organizations – characterized by dilemmas and other problems – at least until managers try to implement the concepts and problems usually emerge.

The characteristics of super-standards are not necessarily unfamiliar to those who construct and disseminate management ideas. Management consultants, among others, may be aware that the above characteristics help selling them.

WHY DO ORGANIZATIONS ADOPT NEW MANAGEMENT IDEAS?

So what happens when management ideas such as sustainability reach organizations? Is it merely the characteristics of the ideas that determine whether or not they are adopted, i.e., factors extrinsic of a potential user? Andrew Sturdy (2004), instead, mainly emphasizes the conditions within the recipient organizations as explanations for why they adopt new management ideas. He brings up six explanations as to why popular management ideas – sustainability and others – are adopted.

The first is the instrumental-rational theory discussed above. Sturdy posits the explanation that only ideas proven to work in practice (in a technical-economic sense) are adopted, against five other main explanations: the psychodynamic, the dramaturgical, the political, the cultural and the institutional.

The psychodynamic explanation stresses the need of managers to create an identity and to ease concerns by introducing, at least in appearance, order and control in the organization. Sturdy describes that this line of literature associates decisions about new management ideas with emotionality and impulsivity, with the effect of decision-makers having less insight of how the ideas will affect the organization.

The dramaturgical explanation highlights the rhetoric of those who disseminate management ideas. According to Sturdy, the literature that takes this perspective tends implicitly to treat companies as more or less easily duped victims in the hands of gurus and management consultants.

The political explanation emphasizes power-related reasons as a basis for whether or not organizations adopt new management ideas. Individuals embrace and argue in favour of ideas for career reasons, status and the like – not because the ideas in themselves may improve performance. People who control resources, decisions, the agenda, expert knowledge, informal networks and so on act as gatekeepers who decide whether to reject or permit ideas such as sustainability.

The cultural explanation focuses on the organization's culture – that is, on the set of values and beliefs that permeates the organization. This explanation implies that management ideas that fit with a particular organization's culture also have a better chance of being adopted by the organization in question. Thus corporate cultures can serve as a bridge or a barrier for the diffusion of individual management ideas, such as sustainability.

The institutional explanation says that organizations in similar settings will embrace similar management ideas. The demands of the surrounding environment and organizations' need for credibility become important in determining whether organizations adopt new management ideas or not.

Røvik's (2000, 2002) and Sturdy's (2004) contributions have many similarities. For example, both raise a number of alternatives to the instrumental-rational explanation, explanations that criticize the established view that the most effective solutions are automatically those that win out. And the psychodynamic explanation raised by Sturdy reflects a number of super-standard characteristics. Ideas that are packaged as something new, clearly structured, user-friendly and good for the entire organization are also ideas that are seemingly able to help management profile their organizations outwardly and provide a sense of order and control.

HOW DO MANAGEMENT IDEAS AFFECT ORGANIZATIONS?

How, then, do management ideas affect the business activities of organizations? A picture often painted of organizational reform, such as by adopting a popular management idea, is that when management has decided on a certain change, the organization's activities also undergo reform according to the decision. Decisions and actions conform.

However, the relationship between decision and action is much more complex in practice. One way of dealing with the question of how management ideas affect organizations is to distinguish between presentation and practice. 'Presentation' here denotes how the organization is described to the surrounding environment. Through its contacts with stakeholders and others, for example through its annual report, website, participation in trade fairs, recruiting and the mass media, the organization conveys an image of itself and how it functions. By 'practice', I refer to the day-to-day processes within the organization.

When organizations present their activities to the outside world, they need to demonstrate that they meet with external demands in order to be legitimate and attract the overall resources needed. Demonstrating conformity to contemporary institutionalized managerial ideas constitutes a significant part of what establishes legitimacy for business firms and other organizations.

Institutional organization theory contends that organizations are much more alike than different, and that this needs to be explained (DiMaggio and Powell 1983). The question is – in what way are they alike? The fact that organizations resemble one another, at least on the surface, is in part an effect of certain management ideas having attained wide diffusion – many organizations state that they follow the same principles of how they are organized. The processes surrounding decisions about management ideas also contain similarities. Even if there are often explanations for decisions on adopting 'new' management ideas other than (bounded) rational explanations, rational arguments are usually needed to motivate the introduction of a management idea (Forssell 1999), such as sustainability. Those who want the organization to adopt a new management idea generally need to put forward arguments about increased efficiency and profitability, even if insight into how a general idea will affect the future organization is limited (Crozier and Friedberg 1977; March 1988). This sets management ideas apart from products such as clothes or music, where aesthetic arguments are more important than rational ones.

But the fact that organizations look alike on the surface, and in some parts of the decision-making, does not automatically mean that their content is the same. The degree to which presentation and practice conform is frequently discussed when it comes to sustainability – for many reasons, talking and taking responsibility do not necessarily correspond. This basic aspect is significant when analysing popular management ideas in general. An individual organization's practice generally deviates from the presentations to the outside world; in many cases, the deviations are substantial. In the following, I address three main reasons for the deviation between presentation and practice: time gaps, resistance and translation.

TIME GAPS, RESISTANCE AND TRANSLATION

One reason for differences between presentation and practice is the time gap between decision and introduction. Presenting and deciding on management ideas takes relatively little time. Implementing them in the day-to-day operations takes significantly longer. When a decision precedes a change (which is not always the case), there is a gap in the time between the decision and the introduction of, for example, a management idea (cf. Brunsson 1989). This time gap entails at least a temporary difference between presentation and practice. An organization can quickly begin to talk about a decided-upon change in order to gain legitimacy, giving the appearance that the organization has changed. But the actual change to the content of activities, and the effects of that change, often comes much later. The time gap also complicates reform attempts, since many things can change between decision and introduction. An organization's processes, products and stakeholders change over time, and thereby the conditions and requirements for the reform may change as well. Management's perception of what is good and bad also changes (March 1978, 1988). New management fashions emerge that seem more attractive than earlier reforms already introduced or underway (when the problems arise). New people with other preferences appear, while others take their leave.

Resistance to change is another fundamental cause of differences between an organization's presentation and practice. Within organizations, there is often resistance to decided-upon changes, for example, to adopt a new management idea. Resistance can be due to several reasons (e.g., Dawson 2003). It can stem from the reform bringing with it changes to social factors in the organization, such as identity, status and the distribution of power. The changes may apply to individual people and entire departments. Resistance may also be due to more practical aspects, such as relocation, reduced financial security, or periods of increased workload. It can furthermore be due to a general fear of the uncertainty brought on by change programmes.

Organizational memory can also be a source of resistance (Brunsson and Olsen 1993). People who have worked for a company for a long period may remember a time when the organization worked with similar management ideas, but used different labels. These people may also remember the problems that often occur when relatively simple management ideas are introduced to a nuanced, narrowly focused business; they may recall that popular management ideas seldom yield all the positive effects promised. But even as organizational memory can be an important factor for resistance in organizations, organizational memory loss can be a prerequisite for introducing new management ideas. Organizations with a large staff turnover, and a large proportion of younger employees, may thus encounter less questioning of changes, for better or for worse. Resistance can also be driven by stakeholders in the environment, for example, individual subcontractors, who think they will lose out with the implementation of a change.

Traditionally, resistance to a decided-upon change has been treated as a problem. Above, I gave examples of resistance based on sub-optimization – the individual's or department's best interest is placed ahead of that of the organization. But resistance is often an expression of concern about the function of business activities, and can build on insights into what is better for the business, or parts thereof – a concern that may be greater in the organization's departments than at the top management level. In large companies, leaders cannot be specialists in every part of the business. Rather, they are generalists who know a little about a great deal. Further, leaders are often recruited from backgrounds in other industries than the one they currently manage.

A third fundamental reason for differences between presentation and practice is that management ideas are often adapted when implemented in business operations. Røvik (2000) is opposed to the idea of congruence between presentation and practice, but also to descriptions of complete decoupling and hypocrisy, where change occurs only on the surface (e.g., Brunsson 1989). Often, the result is instead intermediate forms of adaptation that involve the translation of management ideas to the local context where they are to be used (see also Sahlin-Andersson 1996; Fernler 1996; Czarniawska and Sevón 2003). Røvik (2000) emphasizes several such intermediate forms. 'Concretization' entails the interpretation and clarification of management ideas that are general and vague in nature to enable their use in local operations. 'Partial imitation' refers to situations when only parts of management ideas are introduced into the organization, while others are rejected. 'Combination' is a situation in which the different management ideas, or parts thereof, are combined but can still be identified as relatively independent parts. And, finally, 're-melting' refers to a more radical form of translation than combination. Different parts of management ideas are mixed and combined to such an extent that they can be regarded as new forms. The fact that management ideas are adapted, or not used, in day-to-day operations is not always known to managers. At the management level, it may be believed that reforms have been put in place and are working in a certain way, while actual processes and structures look very different.

Just as is the case with other popular organizational recipes, sustainability is subject to various forms of local adaptation. Kallifatides and Egels-Zandén (2011, 2013) describe the process of an electrification project that Asea Brown Boveri (ABB), a multinational company, carried out in a village in rural Tanzania. While the principles of sustainability adopted by ABB were relatively rigid on the corporate level, they were largely adapted to local norms and conditions in the process of implementation. At the local level, the project entailed both work in line with some of the principles and, to some extent for pragmatic reasons, clear violations of some of the same. From his study of business firms in the financial sector of Sweden, Frostenson (2011, 2013) states that the concepts of sustainability and CSR tend to be translated in the adapting business firms. The translation, however, is not always homogenous but may differ in various parts of an individual organization.

HOW CAN IMPLEMENTATION BE FACILITATED?

In summary, time gaps, resistance and translation are factors that counteract the standardizing effects of management ideas. Organizations' presentations of themselves become more alike than their practices. This applies to management ideas in general, including sustainability.

While translation represents a way of protecting (buffering) the technical core of the organization from its demanding environment – in some respect also facilitating implementation – resistance to and avoidance of a decided-upon change complicate attempts to reform business activities. There are, however, suggestions of how implementation can be facilitated by offsetting such complicating factors. Common advice given in the organizational literature is to try to change the organizational culture so that it supports the reform (Alvesson and Sveningson 2008), although easier said than done. Another common suggestion is to let the employees participate actively in the changes. The literature on organizational development often recommends a three-phase change process (Lewin 1947): (1) an unfreezing phase in which the management tries to strengthen the general perception that the current situation is not good; (2) a change phase in which the reform is carried out and supported by information, dialogue and education; and (3) a refreezing phase in which the change is stabilized and made routine. This model requires that a great many resources are invested to transform ideas into practice and to prevent resistance.

By using this model, or more elaborate ones devised in the same spirit (Kotter 1996, 2007), typical traps when trying to change organizations can, arguably, be avoided. Based on empirical data from some 40 change projects carried out in organizations in Scandinavia, Mårtensson (2003) states seven common change traps to avoid – e.g., the *neutron bomb trap* (excluding people and a human resource perspective from the analysis; the human factor is wiped out); *the poker trap* (where project leaders keep information secret from others); and *the jeopardy trap* (where the exact answer is given before any analysis of the prerequisites and needs of the local practice). Such generic traps, as well as suggestions for how to manage organizational change, are just as relevant to consider when implementing sustainability as they are in the case of other management ideas. The similarities argued in this chapter would be relevant for analysing both problems and solutions.

Differences between sustainability and other management ideas

So far in this chapter, I have used organizational literature to address management ideas in general terms. This review has demonstrated that popular management ideas – sustainability and others – share many important features: e.g., how they come about and diffuse, who participates in their diffusion, why they are adopted by organizations, implementation problems that frequently arise, etc. Such general aspects discussed in organizational literature can help us develop our understanding of sustainability, its causes, problems, effects and so on.

The question of similarities, and how far they extend, also brings us back to the initially raised question of differences. Are there any typical, generic characteristics of sustainability that distinguish it from popular management ideas in general, and if so, how do they affect organizations adopting it? I will end this chapter by suggesting three such differences: (1) sustainability causes more conflict within organizations; (2) sustainability is subject to more external monitoring and sanctioning; and (3) sustainability is largely perceived as a provider of legitimacy, while other ideas are generally seen as providers of efficiency.

MORE INTERNAL CONFLICT

In relation to other popular management ideas, such as Lean, TQM and Six Sigma, there seems to be substantially more conflict around sustainability at the managerial level within organizations. Borglund and Norberg (2011, 2013) describe how individuals and units in the upper management of organizations have varying views on sustainability and CSR, depending on their personal backgrounds, work tasks and the priorities of organizations.

Sustainability tends to affect and involve a large number of functions in organizations, including investment relations, personnel matters, finance, economic governance, information technology, operations, marketing, environment and information. Generally speaking, people responsible for the functions of finance, traditional investor relations and economic governance were more skeptical about the concept of sustainability, while the units of information, environment and personnel matters were generally more positive (Borglund *ibid*.). Further, the adoption of sustainability often implies the installing of a new sustainability unit, affecting other functions, as well as their responsibilities and internal relations. In 2008, one in every three large listed companies in Sweden had employed a sustainability manager (Grafström 2008).

Sustainability managers thus have to work in this internal political landscape of various sustainability advocates and sceptics, and changed relations between internal units – altogether described as a highly challenging task. In order to get anything done, this increases the demands on sustainability managers to master political leadership (establishing formal and informal power sources, etc.) and symbolic leadership (making use of culture, symbols and language). This situation can be compared to the use of popular management ideas such as Lean, TQM and BPR, generally perceived as exclusively a matter of improving efficiency, an established and relatively apolitical aspect of organizations.

MORE EXTERNAL RULE-SETTING, MONITORING AND SANCTIONING

The operationalization of sustainability comes in a multitude of different sets of standards, each and every one addressing many organizations. In an earlier study (Jutterström 2006, 2013), I mapped out 100 different initiatives. From the mid-1990s and onwards, the number increased dramatically – a veritable explosion of sustainability standards. Behind these initiatives are organizations that primarily set the standards for other organizations to follow. The two largest categories in this set of data were non-governmental organizations (NGOs, 41 per cent) and business associations (31 per cent), with governmental organizations, trade unions and hybrids as smaller categories. Such organizations do more than set standards. Besides setting rules, their main activities typically also involve monitoring, giving advice, publishing information, organizing conferences and networks, and applying pressure (see also Windell 2006). Business associations may be as demanding as others. For example, for companies seeking to join the transnational toy producer association and its national member organizations, adoption of their sustainability standard is mandatory (Jutterström 2011, 2013).

Compliance and non-compliance to sustainability standards generate great interest in society at large. Sustainability standards, which often come in elaborate and nuanced forms, also make it easier to analyze and judge the behavior of individual organizations. There are many organizations that monitor, analyze and critique other organizations in terms of sustainability – many more than set sustainability standards. Some of them also engage in activism, for example at shareholders' annual meetings (Sjöström 2007). For large organizations, a breach of sustainability rules – whether standards, norms, directives, or a combination of the three – tend to become topline news in the mass media, often causing serious problems for the organization involved. Critics' attention to, and understanding of, the fact that large organizations are complex social systems that are very difficult to coordinate and control, is often low.

In comparison to the other popular management ideas mentioned in this chapter – lean, TQM, BPR and so on – the picture is essentially different. A breach of Lean or BPR principles will hardly make it to the front pages of the mass media, and there is no multiplicity of organizations – nonprofits or others – that devotedly surveil compliance to Lean or Six Sigma, publishing 'blacklists' of violators. The fundamental difference between such other examples of popular management ideas and sustainability is that the latter is an idea about 'business in society' (Jutterström and Norberg 2013), a topic that has been the subject of vivid discussions for as long as business firms have existed.

SUSTAINABILITY – A PERCEPTION OF LEGITIMACY RATHER THAN EFFICIENCY

A fundamental difference between sustainability and other popular management ideas in general is that sustainability is mainly associated with legitimacy improvements, as opposed to other ideas which are mainly associated with efficiency improvements. The conception of legitimacy improvements is clearly reflected in the standard arguments for adapting sustainability (Jutterström and Norberg 2011, 2013): it attracts potential employees; motivates and keeps existing personnel; increases brand value and goodwill (also, it has been argued, strategic value); boosts reputation; and reduces overall risk for the organization.

Traditionally, efficiency arguments have been much less common, and rather perceived as a negative effect: increased legitimacy by adoption or expansion of sustainability would come at a cost of decreased efficiency (higher costs). The understanding of sustainability as an important efficiency improver, saving and keeping scarce resources (Jutterström and Norberg, *ibid.*), is more likely an effect of experience-based learning (Kolb 1984) in organizations that have implemented it. In comparison to sustainability, popular management ideas are generally perceived the other way around – they are generally seen as efficiency improvers (whether true or not), while the effects on legitimacy tend to be overlooked or underestimated.

Conclusion

In this chapter, I have argued for the relevance of zooming out and generalizing to increase our understanding of sustainability. With the use of the organizational lens, generic similarities between sustainability and other popular management ideas have been described. Significant stages of operationalization have been highlighted, outside as well as within the individual business firm. The stages described are all relevant to understanding the many popular management ideas of our time and how they affect organizations. They have also illustrated the many typical dilemmas, complexities and other challenges that tend to occur when going from a rather vague idea to the transformation of daily business operations.

Although in the same category, some important differences between sustainability and other popular management ideas were also discussed. As many aspects of popular management ideas are in flux, further analysis of how the popular management idea of sustainability develops, and in some respects diverges from other ideas, seems relevant.

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Collaboration and economic performance

The case of social entrepreneurs in Sweden

CHRISTINE ALAMAA, CHLOÉ LE COQ AND CLARA MY LERNBORG

Introduction

The explicit demand for social innovation has increased over the past decades and so has its in share of the economy (European Commission 2013; Nesst 2014). There is also growing attention on the role of social entrepreneurs in creating more inclusive and sustainable societies, by targeting those who are suffering from rising economic inequalities and economic hardships, social exclusion, or strained ecosystems (Mair and Martí 2006; Peredo and McLean 2006).

Social entrepreneurs are driven by a desire to achieve lasting societal change (Zahra et al. 2009). Most existing definitions of social enterprises or entrepreneurships (SEs henceforth) generally tend to agree on the intertwined central social and economic missions (Mair and Martí 2006; Nicholls 2008). Because of their entrepreneurial, market-oriented goal achievement, they differ from not-for-profit organisations (Elkington and Hartigan 2013). When the aim and mission are both economic and social, there is an enhanced need for information exchange, trust and joint problem-solving. There is empirical evidence that social enterprises develop stronger collaborations with partners than do traditional enterprises (Di Domenico et al. 2009). It is, however, unclear from the literature how important collaboration is for social enterprises.

The main focus of this chapter is the link between the nature of social enterprises' collaborations and their economic and social performance. Collaboration can be defined as the process of exchange between two or more parties; this sharing can take the form of occasional connections (soft) or a formalised pattern of working together (strong); it can also take on numerous structures (e.g., alliances, nonprofit partnerships, joint ventures or networks). Both theoretical and empirical studies suggest that network involvement of 'traditional' enterprises is a key factor for business venture success (Di Domenico et al. 2010), but we are not aware of any such analysis that has focused on social entrepreneurs. In the SE context, which is typically characterised by scarce resources, it is frequently highlighted that collaboration is beneficial. It is hence relevant to investigate if and how inter-organisational collaboration allows SEs to improve their economic performance, and indeed whether it is vital for enhancing their social performance.

Understanding the underlying terms is important in order to comprehend if and how social enterprises operate using a more collaborative approach to their networks and applying multiple performance objectives. In line with McEvily and Marcus (2005), we argue that embedded ties may be particularly motivated for skills that requires tacit knowledge and context awareness. Embeddedness can be seen as the conceptualisation of the social patterns actors involve in regarding economic actions; it has been used to explain a wide range of networks of relationships. Our main research focus is thus to analyse the logic of collaborations and its embedded structure and whether the power structure within such collaboration is related to economic and social performance.

Unveiling the link between performance and collaboration in the SE context is challenging, as the success of social enterprises is not necessarily reflected by annual profits (or the like). In particular, profit generation might be secondary to increases in social or environmental impact (Mair and Martí 2006). It is equally difficult to use comparable social impact measures among organisations engaged in hard-to-compare endeavours. To address these issues, we use a dataset of more than 100 social enterprises dispersed across Sweden that provided information on their mission, organisational structure, managerial and operational strategies and age, as well as financing modes. Moreover, we also collected information on the structure and the quality of the foremost collaborative links, network size and formation. We capture the cornerstone for long-term value generation with a measure of financial self-sustainability, operationalised as whether organisations managed to increase their revenues. We use the year-on-year revenue change for the survey year (2015) and its antecedent as a measurement of successful economic performance. For a limited sample, we also analyse the impact of collaboration level and structure on social performance.

Our main finding is that collaboration is not uniquely positively correlated with financial performance, but rather it depends on both its nature and structure. Whenever resource pooling is the primary motive for the collaboration, we find a negative correlation with collaborations of unequal power. We believe that unbalanced decision-making impedes mutual learning or exacerbates the social enterprise's mission drift while gaining access to resources could be potential explanations. Interestingly, we observe the opposite pattern when social enterprises collaborate for other purposes. In line with the literature, it is beneficial to have decision-making authority when collaborations are geared for sharing skills, developing products, obtaining publicity via a shared campaign, etc. Further, we find that 'embeddedness' (proxied by the importance of the focal organisation to its surrounding organisations) is positively linked to economic performance if the collaboration pool size is relatively large. This is in line with Uzzi's (1996) finding that the positive effect of embeddedness reaches a threshold.

The contribution of this chapter is twofold. First, it provides evidence of a link between economic performance and collaboration, when the core mission of the enterprises is primarily social or environmental in nature. There is evidence that collaboration involving social enterprises leads to more pronounced and motivated embedded ties (Di Domenico et al. 2009), but as far as we are aware, no extant study looks at this specific link.

Second, it offers the first empirical study, to our knowledge, of this magnitude and depth in Sweden, providing novel insights into the field of social enterprises in Sweden by looking at the link between their collaboration structure and their economic performance.

Importantly, the causal relationship between collaboration and economic/social performance cannot be addressed in this chapter. Our rich dataset allows us to capture the many aspects of operational modes of SEs, but there might be other important aspects, not mentioned here or explicitly stated, acting as driving forces for increased turnover, economic, or social performance. Additionally, the limited size of our dataset does not allow for solid econometric analysis. Therefore, we generally raise a caveat for causal interpretations, but suggest that results should be interpreted as indicative of links and correlations. Moreover, when considering collaboration, we keep in mind that the SEs' choice to engage in collaborations with a certain structure or motive and to strive for a certain authority level therein, may not be independent. The structure of collaboration is, overall, endogenous to the collaboration itself.

This chapter is organised as follows: Section 2 provides an overview of the social enterprise sector in Sweden, describing the institutional context and the increasing importance of social entrepreneurship in the country. Section 3 discusses the related literature on collaboration, while Section 4 describes our sampling method, the dataset of Swedish social enterprises, and the scope through which we model collaboration and performance. Section 5 looks empirically at the link between economic and social performance and the level and structure of collaboration. Section 6 concludes our findings and outlines avenues for further research.

Social enterprising

DEFINING SOCIAL ENTREPRENEURSHIP

Social entrepreneurship is relatively new as an academic field, and it is challenged by inconsistency and competition among definitions of social entrepreneurship, as well as research gaps and limited empirical data (Mair and Martí 2006; Cukier et al. 2011). Despite the competing definitions as to whom to correctly categorise as a social entrepreneur, social entrepreneurship always involves a social and/or environmental component. Social entrepreneurship is often considered an umbrella concept comprising multiple constructs such as: community entrepreneurship, social change agents, institutional entrepreneurs, social ventures, entrepreneurial nonprofit organisations, social enterprise, and social innovation (Hockerts and Wüstenhagen 2010). Indeed, it can be an individual, group, network, organisation, or alliance of organisations seeking sustainable solutions to social problems (Light 2006). Mair and Martí (2006) deem it as a novel way of providing products and services that serve basic needs, hitherto unsatisfied by existing institutions. Here, we define a social enterprise as an enterprise with a (scored) dominant social mission with (at least) one full-time equivalent employee and at least 5 per cent self-generated revenues[1].

1 This definition is the one used in the SEFORÏS European project, the framework in which our dataset has been collected. Note that in this case, any SE sampled is not an initiative, nor fully dependent on donations (a characteristic of traditional NGOs).

THE SWEDISH CONTEXT OF SOCIAL ENTERPRISING

Sweden is increasingly facing significant societal challenges[2], and social entrepreneurship is often seen as constituting a means to find solutions to these social challenges of unemployment, segregation, mental health and diversity (The Guardian 2013). Interestingly, social enterprises (or entrepreneurship) can be translated in Swedish by two different concepts, "Socialt Entreprenörskap" and "Samhällsentreprenörskap" (Gawell et al. 2009; Palmås 2008). The first relates to entrepreneurship that improves the society for some individuals, whereas the second is much broader and encompasses all innovative initiatives enhancing society at large. The concept of social economy and enterprise was first introduced in Sweden in 1995 (Sofisam 2011).

Traditionally, the role of the state and other institutions in handling social challenges has been dominant in Sweden. Nevertheless, the organisational form denoted as 'formal hybrids' (see Furusten and Juncker's chapter in this volume) has long been prevalent in Sweden. The organisation and management literature has recently focused on the concept of hybrids, and the impact of hybridity, in order to explain how organisations that exist in between sectors adapt to different settings (Brunsson 1994; Battilana and Dorado 2010). Indeed, social entrepreneurship or enterprising has gained importance as a concept and in practice in the Swedish discourse and policy in a relatively short time. This is particularly the case for financial support from flourishing business incubators, as well as governmental initiatives. The Swedish Agency for Economic and Regional Growth (*Tillväxtverket*) has notably expanded its range of applications available for social entrepreneurs. Additionally, until recently, public-private partnerships or collaborations between social enterprises and municipalities were unheard of, but are now on the rise (CSES 2016).

Although the term social enterprise or entrepreneurship may be relatively new in Sweden, the phenomenon itself is not, as the wide age span, reflected in the Swedish SEFORÏS data by an organisational age ranging from 1 to 110 years, clearly avows. Instead, this type of activity has a long tradition in Sweden, bringing people and groups together to solve social challenges, ultimately for the social good. Thereby, organisations stemming from the cooperative movement in Sweden, not least in the retail, electricity and insurance sectors, early on typically had dual social and economic missions. They have been of

2 According to the social entrepreneurship incubator CSES.

great importance in Sweden in the provision of, for example, financial services to the more disadvantaged strata of society (Wijkström and Lundström 2002). The focus therein has been and remains satisfying common needs efficiently, rather than achieving a particular indicator of revenue and profit. There is a need to generate profit for future investments, but profit does not constitute the mission itself. The mission may instead consist of providing childcare, supporting disadvantaged groups in working life and society, or allowing for more inclusiveness in sports and culture, for example.

In the Swedish context, this institutional setting initially led mainly organisations from the nonprofit sector and descendants of the cooperative movement to found work-integrating social enterprises (WISEs) as a means to counter unemployment amongst disadvantaged groups. The institutional context of social enterprises stems from the nonprofit sector, which may have had implications on the goals and direction of the WISEs. This has since evolved and come to include enterprises with wide-ranging backgrounds and aims. There is a rapid push underway to include other types of actors that do not necessarily stem from these cooperative movements. Furthermore, there is an increasing awareness of the Social Enterprise sector in Sweden, despite a large share of the social enterprise industrial sector not being entirely new, with a mean age of the sector of 14 years (SEFORÏS 2016). There is also a surge in interest among young entrepreneurs with no prior history in any sector, and further, that new operators are increasingly driven by Swedish societal challenges.

To conclude, we see a renewal of the sector of social entrepreneurship in Sweden, both in terms of rejuvenation of the entrepreneurs behind social enterprises (with almost 34 per cent of the CEOs being under 40), and in the ways in which they are operating. Hence, beside the well-established Work-Integration Social Enterprise (WISE) sector, there are now many small social enterprises, as well as a number of support organisations for social enterprises. These organisations can be seen as intermediaries, linking the social enterprises to potential investors or financiers; creating networks and platforms; organising seminars; providing support with business and operational models; offering incubator programmes; or evaluating social impact. This contributes to making the social enterprise sector in Sweden more of an established sector in its own right.

SHORT OVERVIEW OF OUR DATASET

There are currently no official records of social enterprises in Sweden, as businesses are still only classified based on their industry type and production (Statistics Sweden). Additionally, no large-scale attempt has been undertaken to count or classify the entire sector. Classifications and contexts, both in practice and theoretically, therefore give rise to a variety of understandings of which business and organisations to include. In addition, different types of social enterprises have different histories, some longstanding and others part of the surging new generation in the sector. The absence of a database and a common understanding of inclusion criteria calls for a sensitive sampling method to avoid self-selection and bias samples. In the European project SEFORÏS (Social Entrepreneurship as a Force for more Inclusive and Innovative Societies)[3], we acknowledge that the social enterprises constitute only a small minority of all enterprises, as well as the risk of incentives for renaming and self-selection into the group. These are all threats to external validity. We use a sampling method technique to detect the type of hidden population that SEs constitute compared to the enterprise population at large. Similar sampling methods previously have been used to detect hidden populations of prostitutes, criminals, etc. It takes the form of respondent-driven sampling (RDS) (Heckathorn 1997), which combines a 'snowball sampling' with a mathematical weighting method. The method application was refined by Huysentruyt and Stephan (2009) for the predecessor project of SEFORÏS, SELUSI.

In Sweden, we introduced seven seed organisations, which were *seeds* that met the SEFORÏS definition of a social enterprise. Seed organisations were selected based on geography, organisational age, and social and industrial sector spread. These seven seed organisations were in turn asked to give three references[4] of other social enterprises that they recommended that we should interview. All social enterprises that were *seeds* or were referred to us (up to three organisations) were thereafter screened to ensure that these fulfilled the criteria of being a social enterprise, according to our definition. All of the references that did so were asked to participate. We always interviewed the CEO[5]

3 For more information, see www.seforis.eu.

4 If a referred organisation was not unique (i.e., had already been referred to us by someone else), it was still recorded. Referee organisations were able to give up to 7 references.

5 66 per cent of the 106 CEO/managers are founders of their organization, alone or together with co-founder.

or the manager and considered an interview completed when a respondent had answered both an online survey and questions put forth during a telephone interview. The connection between the referred organisation and its referral are tracked; and thereby seven intertwined networks of social enterprises emerged. In total, we interviewed in 106 social enterprises. The dataset includes relatively few unexplained missing values. Naturally, there are missing values for variables on yearly changes if organisations were too young to have recorded data for 2014, as well as for financial and social indicators from annual reports for 2014.

Our dataset is unique but also has some flaws. Targeting managers/CEOs avoids departmental biases, which can occur in complex or larger organisations. This is of particular importance when the data measures attitudes or hard values, as well as asking about causes of actions and operational strategies. Interviews were allowed to be lengthy in order to assure consistency in appropriately understanding the question and analysts were trained to score answers. Note that some questions on perceived attitudes may impact reliability in the answers. Several variables are categorical, and the breadth of the study comes somewhat at the expense of depth.

Figures 1–3 provide an overview of this wide range of Swedish social enterprises in terms of sectors, age and mission.

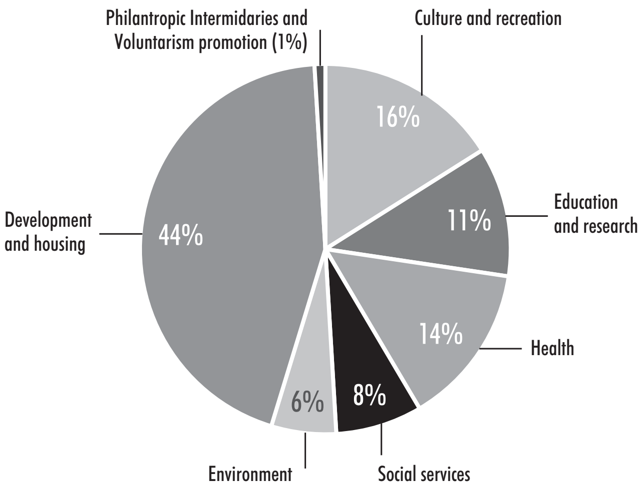

Figure 1: SEs' Top Social Sectors. (SEFORÏS 2016)

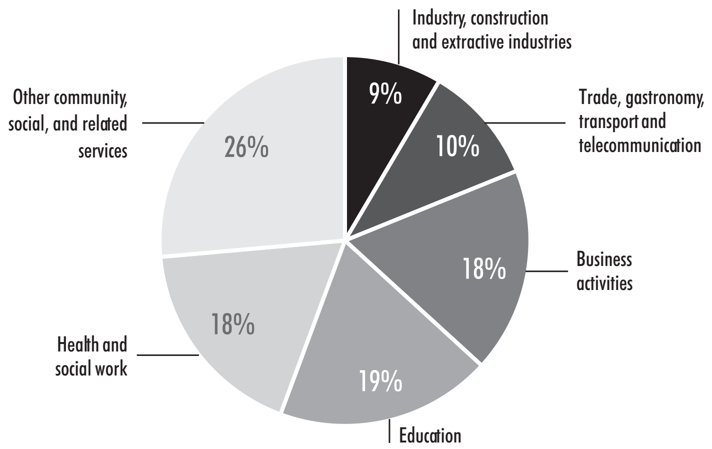

Figure 2: SEs' Top Industrial Sectors. (SEFORÏS 2016)

As typical for the SE sector, the Swedish SEs are diversified, illustrated in Figure 1. A large share of the 106 Swedish SEs' main activity is related to 'Development and Housing' (44 per cent), followed by 'Education and Research' (for 15 per cent), 'Culture and Recreation' (for 14 per cent) and 'Health' (14 per cent).

Furthermore, not only do they belong to different social sectors, but also fall into different industry sectors (as shown in Figure 2). A majority of the social enterprises' primary activities fall into the three rather different industry sectors of 'Education' (nursery, kindergartens, schools and other education); 'Health and Social Work'; and Business Activities (business-related services, e.g., consulting, legal advice and advertisement).

This diversity range is large in terms of both industrial and social sectors and provides an indication that motivations for collaboration for social enterprises may be more heterogeneous than those traditionally vocalised in the literature on collaboration (presented in Section 3). Given the different backgrounds and sectors, we find that there may be a need for social enterprises to gain multiple competencies and resources and engage in manifold collaborations in order to satisfy both missions.

The hybrid component of the social enterprises, together with limitations of traditional financing, gives rise to a mixed financial mode among many SEs.

However, the most important source of capital in our sample is 'fees for services or sales of products' (see Figure 3). On average, almost 53 per cent of the organisations' financing come from fees, whereof a slight majority stems from fees/sales to government or governmental organisations and the smaller share from fees/sales to others. Additionally, grants also play an important part in financing the Swedish social enterprises, accounting for more than 36 per cent of their financing, out of which government grants make up the largest part.

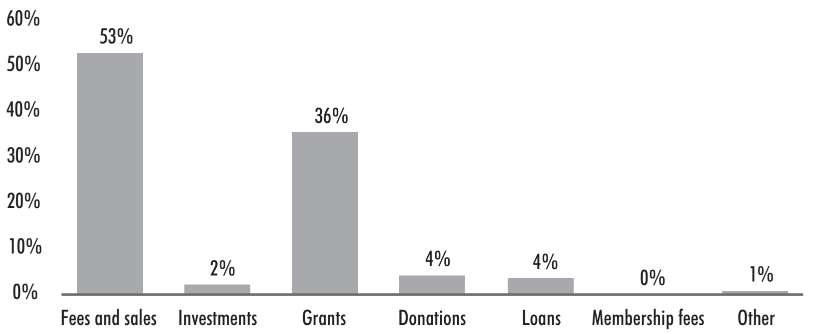

Figure 3: SEs' Sources of Financing. (SEFORÏS 2016)

Social enterprises operate in the intersection between the market, the public sector and civil society as they aim to solve a social or environmental mission (Wijkström and Lundström 2002). The emergence of the sector in the borderland of traditional sectors gives rise to a mix of operational models, sectorial affiliation and financial modes. Social enterprises are not only choosing between varying types of collaboration partners, but also need to move coherently beyond a business-only framework. The data comprises information about the types of organisations that the SEs collaborate with, but the Swedish SEFORÏS data (2016) additionally allows us to capture the link between an enterprise and its peers in the SE sector, as well as the quality and structure of collaborations therein.

In Table 1, we report summary statistics of our full sample. It shows that Swedish social enterprises not only operate in various sectors and target different types of main beneficiaries, but also differ in several other ways.

TABLE 1: SUMMARY STATISTICS

	Mean	Std. Dev.	min	max	Obs.
Organisational age	14.00	(20.15)	1.00	99.00	106
Share self-generated revenues (2014)	0.53	(0.34)	0.00	1.00	101
% of SEs selling to government	0.58	(0.50)	0.00	1.00	106
Organisational size (FTE)	56.95	(194.15)	0.95	1525.00	106
Yearly change in No. of beneficiaries	0.62	(1.23)	-0.32	7.33	87
No. of competitors in the market	107.83	(394.43)	0.00	3000.00	99
No. collaboration partners	23.64	(27.54)	0.00	150.00	105
No. of unique organisational forms (collaborators)	3.47	(1.31)	0.00	8.00	106
Resource collaboration (most important coll.)	0.29	(0.46)	0.00	1.00	106
Social impact scaling collaboration (all)	0.73	(0.91)	0.00	3.00	106
No. of SEs in active network	12.92	(21.10)	0.00	150.00	106
Network engagement (0/1)	0.49	(0.50)	0.00	1.00	103
Social embeddedness (0/1)	0.77	(0.42)	0.00	1.00	104
Observations	106				

Related literature

In this section, we discuss the social entrepreneurship literature, as well as the cross-sectoral partnership and network literature. In particular, we discuss Uzzi's (1996) seminal paper on the link between embeddedness and economic performance of organisations, which is central for our analysis of what the outcomes of network position and increased inter-organisational collaboration entail, in terms of social mission and economic performance.

DEFINING COLLABORATION

The terminology used to describe collaboration is disparate and may involve different types of actors. In the past decades, there has been a significant growth in focus on corporate partnerships, particularly varying forms of external collaboration, including inter-firm alliances and joint ventures (Powell et al.

1996). Collaboration is also a growing phenomenon in terms of achieving social and environmental impact and change (Selsky and Parker 2005; Dorado et al. 2009; Le Ber and Branzei 2010). Since the 1992 Rio UN Conference on Environment and Development, partnerships, especially of the cross-sectoral variety, have been favoured as a means to address complex societal issues (Ryan 2003). It is also seen as an enticing avenue for innovation and sustainable value creation (Kolk and van Tulder 2010; Porter and Kramer 2011).

The literature on cross-sector social partnerships is interesting in light of the social mission and hybrid nature of social enterprises, as these involve combinations of actors from for-profit, nonprofit, and even government sectors (Selsky and Parker 2005). Bryson et al. (2006: 44) define it as 'the linking or sharing of information, resources, activities and capabilities of organisations in two or more sectors to achieve jointly an outcome that could not be achieved by organisations in one sector separately'. Thus, when looking at a new type of phenomenon such as social entrepreneurship, the effort to create social value indeed involves collaborations and brings together different types of organisations from different sectors (Rivera-Santos and Rufín 2010).

MOTIVATIONAL FACTORS FOR COLLABORATION

The literature on sustainability partnerships is focused on its success factors for formation, implementation and management of partnerships (Hood et al. 1993; Waddell and Brown 1997; Austin 2000; Rondinelli and London 2003; Berger et al. 2004; Austin and Seitanidi 2012). Thus, studies of inter-organisational cooperation tend to focus on the motivations for engaging, whether they are short-term or long-term (Barringer and Harrisson 2000), and the formality of the cooperative behaviour, as well as the vertical/horizontal nature of the relationship (Smith et al. 1995).

Depending on the formality of the relationship, it is possible for organisations to pursue joint efforts to alleviate social issues, with varying degrees of formal affiliation (Austin 2000). In certain instances, such as sustainability certification schemes, partners may be on equal footing. However, given that there is frequently an imbalance in relationships between organisations of varying size and importance, the resource dependence view (Pfeffer and Salancik 2003) has become a dominant theoretical lens to understand the motivations and functioning of inter-organisational relationships and partnerships (Le Ber and Branzei 2010; Parmigiani and Rivera-Santos 2011). Huxham

(1996) builds on resource-based theory in order to highlight the concept of 'collaborative advantage', through which nonprofit organisations can build distinctive capabilities in order to address social issues. Uzzi (1996) looks at this through a different lens, examining how embeddedness of firms in different relationships may have an impact on firms' performance, i.e., establishing whether indeed there is a cooperative advantage.

EMBEDDEDNESS AND NETWORKS: IMPACT ON PERFORMANCE OF COLLABORATIONS

With a plethora of views on what constitutes a collaboration, there are different opinions on the impact of cooperation for a firm. Research in network theory highlights that exchanges between cooperating organisations can be seen as increasingly embedded (Granovetter 1985), instead of holding a transactional approach (Uzzi 1997). Furthermore, Galaskiewicz's (1985) overview of the inter-organisational literature emphasises that cooperation in a network could allow for the acquisition of resources, uncertainty reduction, enhancement of legitimacy and attainment of collective goals. Nonetheless, he stresses that there is no single theory of inter-organisational relations.

The embeddedness approach brings forward the importance of strong ties in network alliances (Gulati 1998), in that strong ties are essential for accessing resources in network alliances. These relations enable and constrain the organisations' actions (Barley et al. 1992). Thus, the ability to engage in effective collaborations is seen as a function of its network position, given that this is a determinant for the number of partners of the organisation. An empirical example in the bio-technology industry shows that firms with a more central position in a network tend to have more inter-organisational cooperation (Powell et al. 1996). The organisation's network status also serves as an important signal about the value of future interaction (Gulati 1998). Embedded relations thereby enable partnerships to be based on relational mechanisms rather than contracts (Nohria and Gulati 1994).

The importance of a mix of strong and weak ties in order to allow for complementarity of network ties (Uzzi 1997, 1999; Uzzi and Lancaster 2004) is also brought forward in this approach. Network complementarity entails that actors should focus on attaining both weak and strong ties in a network setting (Uzzi 1999), so a combination thereof should thus allow for a stronger social or financial performance and may for example result in an increased ability to secure loan capital.

As we wish to investigate the impact of collaboration on performance, we find the notions of structural embeddedness, network structure and its link to performance as stressed by Uzzi (1996) very relevant. Between firms, there are different types of arrangements and interactions. To elaborate, while some relationship functions can be arm's length, i.e., the typical market variety, others are close and involve repeated interaction, trust, fine-grained information transfer and joint problem-solving. For example, in his ethnographic study of apparel firms, Uzzi (1996) noted that manufacturers sent work to network partners with whom they had intense social interactions to help these organisations survive in the short run even though the same work could be sent to other shops that offered volume discounts. Embeddedness thus functions as a logic of interfirm exchange, and Uzzi stresses that embeddedness provides different kinds of benefits that will in turn impact network partners' economic performance.

COLLABORATION AND SOCIAL ENTREPRENEURSHIP

Most of the literature on social entrepreneurship discusses the motivations for pursuing sustainable ventures. Some work emphasises strong links between entrepreneurs and environmentalists (Dixon and Clifford 2007; Cherrier et al. 2012), whilst others contend that 'ecopreneurs' are indeed a separate category of entrepreneurs (Vega and Kidwell 2007). According to some, the very nature of environmental issues means that entrepreneurial solutions are needed (Dean and McMullen 2007), whilst others explore the issue of whether and how sustainability or environmentalist orientation influences entrepreneurial pursuits and ventures.

Especially when it comes to (social) funding of social enterprises, there are a number of different types of organisations/actors involved, spanning philanthropic foundations, corporate sponsorship and impact investing, as well as selling end-user services to the target group or instead subsidising target group activities by selling to a third party. Social enterprises may thus rely on a repertoire ranging from full donor reliance to financial self-sufficiency through membership fees, donors, gifts, loans or seed money. This type of blending of different sources of funding may be convenient, but may be costly in terms of operational efficiency (Frumkin and Keating 2011), as funds may come with strings attached. Prokopovych and Plotnieks (2014) ask for caution regarding generalisation when it comes to the organisational consequences of strings being attached.

Empirical approach and hypotheses

Drawing on the literature outlined in the previous section, we are now able to formulate different hypotheses regarding the nature of collaboration and its links to organisational performance for the social entrepreneurship sector.

First, a collaboration is regarded as a link in which primarily the number of collaboration partners constitutes the pool of existing collaboration partners, associated with each surveyed (focal) SE. Secondly, we look at the quality of the existing links within a collaboration, particularly focusing on the level of embedded ties (or 'embeddedness') of a social enterprise, both regarding an internal perspective with focus on the actions taken by the focal organisation, but also from a partner's perspective on the focal organisation, capturing the effects of being a crucial or unique collaboration partner for organisations in the proximity of the focal organisation. Finally, we explore the power structure of the collaboration. This includes the reasons for engaging in collaboration, as well as the power structure of such links measured by the varying authority over existing collaborations.

• SEs' level of collaboration

Research shows that cooperation allows for sustainable value creation, innovation and access to resources. We explore whether the level of inter-organisational cooperation has an impact on the SEs' level of performance. We also look at whether enterprises that have higher levels of network ties do better financially or in social goal achievement.

Hypothesis 1: High level of network ties (strong level of collaboration) does not affect SE's performance.

• Quality and embedded structure of the collaborations

According to the literature, collaboration has an embedded structure if the collaborators/ business partners are closely tied and engaged in coordinated adaption. Trust and other behavioural aspects endow the collaboration with characteristics that enable the collaborators to exchange rich information and long-term resource pooling, thereby reducing transactional costs.

However, measuring embeddedness is rather challenging. We use two ways of identifying whether an organisation exerts the behaviour of embedded ties. The first accounts for the efforts an organisation puts into discussing important economic and social issues with the sector and/or stakeholders. The second measure relates to the importance of the focal organisation for its surrounding organisations. The focal organisation's level of coupling is considered as a proxy for the uniqueness of the SE for its peers. *Per se*, collaboration is both an opportunity and a limitation, giving access to important mechanisms for economic outcomes, as well as impeding the enterprise from spending an extensive time outside existing relationships.

These two measures will help us to assess how dependent the SE is on his collaborator(s), and whether this impacts performance.

Hypothesis 2: For a given network size, SEs with stronger embedded ties perform as well as those with looser ties.

• Usefulness and power structure of collaborations

Finally, we wish to explore how the nature of collaboration (looking at the reasons for and the power structure within collaboration) matters for performance by looking at the three most important collaborations for each considered social enterprise. Second, we ask whether the organisation has less, equal, or more decision-making authority on a day-to-day basis, compared to other involved parties. Possessing extensive decision-making power over existing collaborations decreases the risk of mission drift but could limit learning. Explicitly, we explore if deviating from an equal power structure in collaborations matters for economic or social outcomes.

Hypothesis 3: Given embeddedness, weak or dominant collaboration leads to the same performance.

THE MODEL

We use a logit model in order to address which factors are linked to financial and social performance. Our financial outcome is binary and indicates the *failure* of an organisation to increase their yearly revenue. Thus, the dependent variable takes the value 0 if an organisation increased year-on-year revenues and 1 if it remained unchanged or decreased. We view revenues as a postulate for enhanced or extended reach of social impact. Yet, other determinants naturally affect both the level and changes in revenues regardless of the organic change factors. We pay special attention to innovation-conditional change by including covariates that enables us to control for the possibility that an organisation yields higher values (social or efficiently) with lower or unchanged revenues. Moreover, by looking at changes in revenues, it allows us to compare organisations of vast size difference.

Organisations with a dual goal are potentially inclined to collaborate for several reasons other than purely economic. Therefore, we examine the collaboration's effects on social performance using a very similar approach, with some minor modifications of included controls. For the social outcome, a binary outcome variable is used which captures the self-measured social performance. Whenever a SE measures its social performance, we code a positive change (reflected by a unit increase or decrease depending on the actual measure used by the SE) in the social performance as 1, and 0 for unchanged or negative change (a decrease or increase of the indicator values).

In Table 2, we report descriptive statistics by the two groups of SEs: the ones that *fail* and the ones that *succeed* in increasing their revenues. This way of considering the data is important when analysing an outcome that might be perfectly determined by other factors, themselves significantly different across the groups.

TABLE 2: SUMMARY STATISTICS (PER GROUP)

	Success					Fail				
	Mean	Std. Dev.	min	max	Obs.	Mean	Std. Dev.	Min	max	Obs.
Organisational age	15.34	(21.88)	2.00	99.00	62	15.86	(19.97)	1.00	99.00	28
Share self-generated revenues (2014)	0.54	(0.36)	0.00	1.00	62	0.53	(0.33)	0.05	1.00	26
% of SEs selling to government	0.58	(0.50)	0.00	1.00	62	0.61	(0.50)	0.00	1.00	28
Organisational size (FTE)	71.33	(230.74)	0.95	1525.00	62	52.97	(156.15)	1.02	800.75	28
Yearly change in No. of beneficiaries	0.63	(1.17)	-0.32	7.33	59	0.49	(1.35)	-0.20	6.50	25
No. of competitors in the market	141.77	(500.57)	0.00	3000.00	56	86.32	(216.00)	0.00	1000.00	28
No. collaboration partners	28.48	(32.39)	0.00	150.00	61	15.18	(14.50)	2.00	55.00	28
No. of unique organisational forms (collaborators)	3.55	(1.33)	0.00	8.00	62	3.50	(1.20)	2.00	8.00	28
Resource collaboration (Most important coll.)	0.29	(0.46)	0.00	1.00	62	0.29	(0.46)	0.00	1.00	28
Social impact scaling collaboration (all)	0.87	(0.93)	0.00	3.00	62	0.71	(0.94)	0.00	3.00	28
No. of SEs in active network	14.18	(23.47)	0.00	150.00	62	11.00	(12.81)	0.00	50.00	28
Network engagement (0/1)	0.54	(0.50)	0.00	1.00	61	0.35	(0.49)	0.00	1.00	26
Social embeddedness (0/1)	0.79	(0.41)	0.00	1.00	61	0.81	(0.40)	0.00	1.00	27
Observations	62					28				

We perform a t-test of within sample, across group differences, the results of which are presented in Table 3. This examination of data indicated that significant differences across group means can be rejected at the conventional (0.05 alpha) level.

TABLE 3: T TEST

	Mean Success	Mean Fail	Diff.	P Value	N Success	N Fail
Organisational age	15.34	15.86	-0.52	0.915	62	28
Share self-generated revenues (2014)	0.54	0.53	0.01	0.885	62	26
% of SEs selling to government	0.58	0.61	-0.03	0.816	62	28
Organisational size (FTE)	71.33	52.97	18.36	0.703	62	28
Yearly change in no. of beneficiaries	0.63	0.49	0.14	0.635	59	25
No. of competitors in the market	141.77	86.32	55.45	0.577	56	28
No. collaboration partners	28.48	15.18	13.30	0.041*	61	28
No. of unique organisational forms (collaborators)	3.55	3.50	0.05	0.869	62	28
Resource collaboration (Most important coll.)	0.29	0.29	0.00	0.965	62	28
Social impact scaling collaboration (all)	0.87	0.71	0.16	0.463	62	28
No. of SEs in active network	14.18	11.00	3.18	0.504	62	28
Network engagement (0/1)	0.54	0.35	0.19	0.098	61	26
Social embeddedness (0/1)	0.79	0.81	-0.03	0.768	61	27
Observations	90					

Collaboration and variation of the performance

To test the different hypotheses formulated in Section 4, we use our dataset on Swedish social enterprises and their collaborations described in Section 2.1. We first discuss the different variables and then provide the estimates of the models.

VARIABLES

• The measures of performance

Given that social enterprises have a social or environmental mission at their core, defining a sensible measure of economic performance that considers its business logic is key. As mentioned, annual profit may not be the best measure to represent economic performance of organisations built around improving the lives of others. In contrast to for-profit organisations, self-sustainability and long-term value generation thus better capture the duality in the work of a social enterprise.

(i) Economic performance. We use the year-on-year revenue change for the survey year (2015) and its antecedent as a measurement of economic success. Our starting point is the idea that social enterprises that achieve higher balanced revenue increase their scope, socially or economically. Whether that is true for the effective year is of course not always certain. New recruitments, increased costs, or projects with long horizons can occasionally blunt the measure. Organisations that experienced an increase of revenues are considered as 'successful', and coded as 0, while organisations with unchanged or decreasing revenues are considered as 'failing', coded as 1. Since newly established organisations did not yet finalise two annual budgets, we use all organisations for which we have data on the outcome variable. Out of the 106 surveyed 16 were ineligible for analysis. Out of the remaining 90, 28 decreased or did not increase revenue generation between the budget years of 2014 and 2015. This implies that for most of the tested model specifications, we run analysis on 28 failing organisations and 62 succeeding organisations.

(ii) Social performance. For the social performance, we use the 76 out of the 106 organisations that in any unit track its social performance. We make use of yearly changes in the measure. Out of the 76 organisations that measure social performance, another 22 organisations were too new, explaining why yearly changes do not exist. This leaves 53 SEs for analysis (31 successful and 22 failing).

- The different features of the collaboration

We use different variables to characterise the type of collaboration that the SE is engaged in.

(i) The number of partners (level of collaboration). We capture the importance of collaboration pools and the existence of interfirm links by including the number of collaboration partners as a first measure of connectivity of an organisation.

(ii) Organisational engagement in collaboration. Managers of social enterprises were also asked whether the 'members of their organisation generally spend a lot of time and effort networking (where networking means building and sustaining relationships with others)'. Given that the manager answers that he/she agrees or strongly agrees with the statement, network engagement is classified as 1 (and 0 otherwise). Thus, this constitutes an indicator variable of engaged networking. Alternatively, we use whether the focal organisation discusses important social economic and social changes with similar organisations and/or external stakeholders. The latter is more an indication of whether the SE has embedded ties (in general) than if they focus on/acknowledge networking. The variable is coded similarly. In the social performance model, we use the network engagement variable.

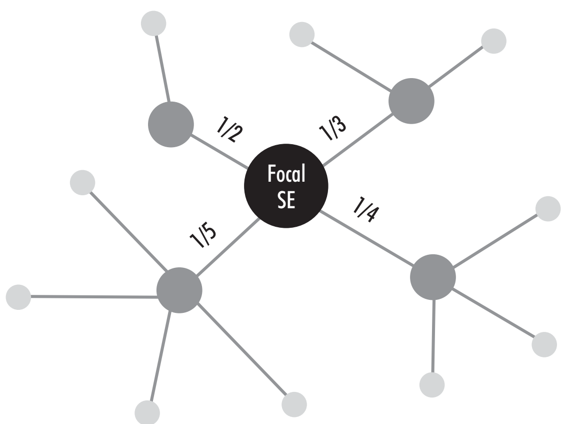

Figure 4: Network location

(iii) The second-order coupling. SEFORÏS (2016) sampling method allows us to track the first ring of peer organisations, which are closely related to the focal SE. We use *peer* for social enterprises that are detected in our sample, either by being a seed organisation, a referral, or a referee to at least one other social enterprise. The word SE-Peer is used to distinguish these types of organisational links from collaborative links, which may include any type of organisation(s). We use these identified links to proxy the second-order ties of the focal organisations (Uzzi 1996). We measure the importance of the focal

SE by its actual number of first-ring peers. For each organisation, we record the number of collaboration partners which the focal organisation refers us to, and of those which they in turn have been referred by. Each link between the focal organisation and the partner is weighted according to its importance for the partner. If, like in Figure 4, a focal organisation has 4 organisations in its first ring of peers, and these 4 organisations collaborate with 2, 3, 4 and 5 collaboration partners respectively, we construct a measure indicating that this focal organisation is 1/2, 1/3, 1/4 and 1/5 of its peers' potential collaboration partner. We then weight this measure by one-fourth, as the peer pool consists of 4 SE-peers, yielding a compound measure of the focal organisation's centrality to its peers. The value of second-order coupling lies between 0 and 1 and how important the focal organisation is for their peers. In this manner, the second-order coupling works as a proxy for the other side of embeddedness.

(iv) The usefulness of the collaboration. For the (up to) three most important collaborations, each including one or more collaboration partners or organisation, we classify the primary reason for the SE for being involved in the particular collaboration. The social enterprise gave the primary reason for each collaboration and scored the answers such as: To access resources (money, people, networks, information), To access skills (that we don't have in-house in our organisation), To access commercial/business expertise, To develop products/services, To scale social impact, To obtain publicity or endorsement, As part of collaborative campaigning (i.e., campaigning together with other organisations), or as Other.

(v) The power structure of the collaboration. Additionally, we use a compound weighted measure of the focal organisation's influence level, in which deviations from 1 indicates more unequal decision-making authority over its collaborations. Values close to 1 indicate that the organisation on average maintains collaboration with a balanced power structure. Note that when looking at the social performance analysis, we do not use a compound measure of this

deviation, but allow the estimates to be different for collaborations with less compared to more power. The value 1 represents equal collaborations.

Together, these measures capture the incidence and intensity of existing collaborations and networks respectively.

• Control variables

We control for organisational age (measured from the firm registration's date at the official agency); the self-generated revenue share of the overall financial liquidity (over the past 12 months); the organisational size as the total number of FTEs[6], as well as the yearly change in FTEs; an indicator for whether the enterprise has competitors providing similar product(s) or service(s) in the same geographical market as the SE is located; the share of employees that has worked with innovation of new products/services/processes; and the number of unique organisational forms of collaborators that SEs have.

ESTIMATES

• Economic performance and collaboration

Table 4 provides the results of four estimated models on financial performance. As logit models use maximum likelihood, observations where failure or success is completely determined by included covariates are excluded from estimations. Model 1 includes only controls; Model 2 includes the independent variable concerning the level of collaboration (i.e., the number of partners) and adds a control variable to measure the sectors' diversification of the considered SE (i.e., the number of unique type of collaborators). Model 3 adds the two dimensions of embeddedness, including the organisational engagement in collaboration and the second-order coupling among partners. Model 4 adds the measure of equal decision-making structure within collaborations, controlling for the perceived usefulness of the considered collaboration. Table 4 presents these results.

6 FTEs are considered to account for 35 hours/week.

TABLE 4: LOGIT ANALYSIS OF COLLABORATION AND ECONOMIC PERFORMANCE (FAILURE): SOCIAL ENTERPRISES IN SWEDEN 2015

	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4
Increase revenue failure				
Organisational age	0.0194 (1.33)	0.0562* (2.48)	0.0734** (2.93)	0.151 (1.87)
Share self-generated revenues	-0.140 (-0.16)	-0.702 (-0.67)	-1.429 (-1.06)	-2.237 (-1.02)
Organisational size (FTE)	-0.00101 (-0.47)	0.00264 (1.91)	0.00265 (1.57)	0.00980* (2.20)
Yearly change in org. size (FTE)	-0.344** (-2.71)	-0.299** (-2.75)	-0.327** (-2.67)	-0.714** (-2.70)
Competitors on the same geographical level (0/1)	1.726* (2.51)	1.634* (2.15)	2.485** (2.92)	4.238** (2.95)
% of emp. working w/ innovation (past year)	1.771* (2.40)	2.154* (2.49)	2.509* (2.28)	3.609 (1.73)
Unique collaboration org. types (Most important coll.)		-1.159 (-1.71)	-1.069 (-1.17)	-2.995 (-1.51)
No. collaboration partners		-0.0209 (-1.36)	-0.0351 (-1.38)	-0.0986* (-2.57)
Social embeddedness (0/1)			0.748 (1.14)	1.237 (1.15)
Second-order 'SE-peer' coupling			49.21* (2.23)	108.3* (2.11)
Second-order 'SE-peer' coupling squared			-194.5* (-2.42)	-449.9* (-2.21)
Deviation equal-power coll. (symmetric)				7.891** (2.99)
Deviation × resource collaboration (Most important coll.)				-25.29** (-3.18)
Resource collaboration (Most important coll.)				15.16*** (3.67)
Constant	-2.921** (-3.26)	-1.526 (-1.28)	-5.086** (-2.82)	-12.58*** (-3.53)
Observations	88	86	84	83
Log Likelihood	-40.12	-35.73	-29.21	-17.77
Degrees of freedom	6	8	11	14
Pseudo R2	0.249	0.322	0.429	0.650

z statistics in parentheses *$p < 0.05$, **$p < 0.01$, *** $p < 0.001$

Our main finding is that, once controlling for the usefulness of the collaboration, collaboration structure and economic performance are shown to be interlinked. In general, the log-likelihood values indicate that the fit of the model improves when adding specific features of the collaboration, compared to Model 1 (only including controls).

Level of collaboration and economic performance. First, the level of collaboration does not, *per se*, seem to have a robust standalone link to financial performance (Model 2), but only when interacting with the structure of collaboration (Model 4). Hence, Hypothesis 1 cannot be rejected. However, Model 4 shows that the number of collaborations has a positive effect on financial performance, which is represented by a decreased likeliness to fail in increasing revenues. A larger collaboration pool can therefore be linked to a more stable economic situation allowing for a higher liberty of action for the SEs. The pure effect of the collaboration pool size is positive, and for model specifications including a second-order term (not presented here), we cannot confirm any results of such a non-constant return to collaboration number of partners.

Embeddedness and economic performance. Second, it seems that only one side of the embeddedness may be linked to the economic performance, whereas we cannot fully reject Hypothesis 2. The organisational engagement in the collaboration (referred to 'social embeddedness') is not statistically significant with a 95 per cent confidence interval. On the other hand, the importance of the focal organisation for its surrounding organisations (proxy as the 'Second-order 'SE-peer' coupling' in Models 3 and 4) shows a negative effect on financial performance. Whenever the focal organisation is relatively unimportant for its peers with values close to zero, it suggests that organisations, more unique to their SE-peers in the network, perform worse. This negative effect, however reverses itself (by a negative second-order polynomial effect on failure) as the organisation becomes more important to its peers. This is interpreted in terms of a very large share of a network ties' collaboration partners being negative for small peers' collaboration pools, but rapidly becomes positive for larger pools.

Power structure and economic performance. Third, the link between power structure and economic performance can be assessed at different levels. From Table 4 (Model 4), failing to increase revenues is positively (negative coefficient) correlated with balanced decision-power collaboration. Or put differently, overall, gaining or giving up authority (deviating from balanced power) within a collaboration is beneficial for the organisation's economic performance. Notably, we find these results to be conditional and accurate only if not collaborating for achieving access to resources. If instead the main purpose of the collaboration is to get access to resources, the conclusion is the opposite; whenever engaging in resource-motivated collaborations, promoting equal decision-making authority is advantageous. One reason for this finding is that collaborating to get access to resources is, in general, inauspicious for SE's economic performance (as should be clear from Table 4). In this case, having a balanced collaboration may counteract this negative effect (i.e., failing in increasing revenues). Additionally, deviating from having an equal authority over the collaboration in those resource-driven collaborations is strongly negative for economic performance. This suggests that maintaining an equal decision-making structure if collaborating for resources benefits economic performance.

SOCIAL PERFORMANCE AND COLLABORATION

Turning to links between the social performance and collaboration level and structure, using a similar framework than above, Table 5 shows the main results. In addition, sample sizes are even smaller for these model specifications. However, results vary slightly and we see a clearer indication of the link between the level of collaboration and social performance achievement.

TABLE 5: LOGIT ANALYSIS OF COLLABORATION ON SOCIAL PERFORMANCE (SUCCESS): SEs IN SWEDEN 2015

	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8
Social performance success				
Organisational age	-0.0462 (-0.83)	-0.0902 (-1.09)	-0.0742 (-0.86)	-0.850* (-2.55)
Organisational age squared	0.000654 (1.06)	0.00127 (1.51)	0.00119 (1.38)	0.0236** (2.71)
Organisational size (FTE)	-0.00271 (-0.76)	-0.00583 (-1.47)	-0.00690 (-1.42)	-0.00955 (-1.15)
Competitors on the same geographical level (0/1)	-1.183 (-1.81)	-1.667* (-2.05)	-1.997* (-2.30)	-3.616* (-1.98)
No. collaboration partners		0.0332 (1.93)	0.0337* (2.00)	0.0464* (2.03)
Network engagement (0/1)		-1.339 (-1.48)	-1.431 (-1.70)	-3.089 (-1.94)
Second-order 'SE-peer' coupling			2.817 (0.15)	10.96 (0.44)
Second-order 'SE-peer' coupling squared			-36.21 (-0.43)	-66.72 (-0.55)
Social impact scaling collaboration (all)				-0.857 (-1.48)
Equal-power deviation				1.791** (2.74)
Constant	1.618* (2.25)	2.102* (1.96)	2.440 (1.66)	8.401* (2.45)
Observations	53	51	51	49
Log likelihood	-32.05	-26.74	-26.51	-15.22
Degrees of freedom	4	6	8	10
Pseudo R2	0.109	0.226	0.233	0.541

z statistics in parentheses * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Once controlling for the Second-Order 'SE-peer' coupling, the level of collaboration is positive and significant. Bigger collaboration pools' size increases the probability of observing social impact changes. We cannot reject that the second-order coupling has no effect on social impact achievement, neither here nor in the full model (Model 8). Given the interlinked nature of collaborations, estimates support the correlation of power structure in collaborations with social performance, but the effects are reversed. Deviating from an equal power structure in all types of collaborations increase likeliness of higher social performance. The model specifications are however different from the one used in the main analysis of financial performance. Here we use the networking time control instead, we do not include interaction terms, and we control specifically for collaborations over social scaling instead of accessing resources. Overall, we find no convincing results that collaboration levels and structure are closely linked to social impact performance.

Conclusion

Exerting joint problem-solving arrangements allows collaborators to experiment, learn, and find solutions. Such pronounced collaboration structures are often chosen by social enterprises, given their aims. In this chapter, we analyse the link between collaboration and SEs' performance. In particular, we focus on the nature and structure of the collaboration, as well as the social and economic performance, using an extensive dataset of over 100 Swedish social enterprises. It is well known from the literature that for 'traditional' enterprises, collaboration allows for value creation, innovation, and/or access to resources. It is therefore interesting to investigate whether the same dynamic exists for social entrepreneurs.

Our findings suggest that, for social entrepreneurs, collaborating for resource access is only beneficial with balanced power between the parties involved. However, this is not the case for other collaboration motivations (such as sharing skills, developing products, obtaining publicity, or campaigning together, etc.), for which the number of collaborators matters greatly for economic performance. We also find that the importance of embeddedness for firms' performance, as the number of collaborators should be limited according to Uzzi (1996: 675):

> organisational networks operate in an embedded logic of exchange that promotes economic performance through interfirm resource pooling, cooperation, and coordinated adaptation but that also can derail performance by sealing off firms in the network from new information or opportunities that exist outside the network.

As mentioned, we focus mainly in this chapter on economic performance, yet this performance is unequivocally tied to the social enterprises' social missions. Moreover, we know from our sample of SEs that they find that national and local government do not understand their funding requirements and needs. Thus, in order to survive, they have their own way of solving things. Because of their dual mission, SEs are typically in need of collaboration. In our data sample, on average, SEs have 7 employees, but 13 collaborations. This suggests that collaborating is indeed essential for these SEs; understanding their logic of collaboration is essential in order to further this sector and solve societal challenges.

The sample size in this study is relatively small. An aim for the future is to investigate whether the preliminary findings hold for a larger sample. Moreover, a variety of perspectives on inter-organisational cooperation can be used in order to further develop the link between organisational performance and cooperation/collaboration, not only financial but also social performance. We wish to test further hypotheses in relation to this, first in relation to the link between strength of financial ties and social performance. In our study, we observe a tendency of unequal power structure having a derailing effect on an organisation's overall performance. This could be indicative of mission drift in SEs. Thus, a possible avenue for future research is the gap between social performance and inter-organisational cooperation, i.e., mission drift, a hitherto observed research gap (Prokopovych and Plotnieks 2014). Moving further, given the alleged link between cooperation and innovation, we also wish to investigate the potential positive impact of inter-organisational cooperation on SEs' level of innovation.

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CHAPTER 6

Neoliberal 'sustainability' in the UK

The case of regulating domestic pension funds

MARKUS KALLIFATIDES AND ANNA LARSSON

Introduction

Does the ongoing political and economic crisis pose significant challenges to a neoliberal and financialized world order which both social and natural science have deemed socially and ecologically unsustainable? If so, how? These very broad questions motivate our overall line of inquiry in this chapter. We engage with the critical yet hopeful (dialectic) notion that any discursive practice also harbours its own negativity, hence sowing the seeds of its own transformation. We aspire to point to some of those seeds while acknowledging that they have yet to bear fruit.

Few scholars would challenge the interconnectedness between crises and transformation (Baker and Underhill 2015). This includes the specific topic in focus here: corporate governance regulation (e.g., Sullivan and Conlon 1997). Critical scholars of varying schools of thought have demonstrated at length that the overall response to the recent crisis has been one of re-entrenchment of neoliberal policies privileging the wants of those social groups in control of the means of production, most importantly financial capital (Hay 2011; Horn 2011; Mirowski 2013; Bieling 2013; Krippner 2015; Baker and Underhill 2015; Underhill 2015; Heinrich 2015). Despite widespread claims in party politics and popular debate that the economic crisis of 2008 has been managed (claims documented by, e.g., Hay 2011 and Jessop 2015), European dis-integration, mass unemployment, sovereign debt explosion, continued market volatility, and military conflict certainly call into question the limits of the prevailing political imagination. With an overarching understanding of the dynamic of a financialized neoliberal world order now in transition from one hegemony to another (Arrighi and Silver 2001; van der Zwan 2014) and drawing on recent conceptualizations in 'cultural political economy' of economic crisis

(Jessop 2015), we engage with the notion of regulatory and academic discourse as presenting variegated construals of crisis and the sediments left by those semiotic and political processes in a public sphere. We contend, following Jessop (2015: 4), that crises 'generally prompt massive variation in construals, ranging from unjustified panic to stubborn denial, opening space for the (re-) politicization of sedimented discourses and practices'. Our analysis focuses on the level of regulatory discourse about the corporation and its governance in financialization, and specifically on the discursive formation of the role of a particular kind of corporate governor: the domestic pension fund.

Beyond analyses of the corporation itself and its executive functions (e.g., Berle and Means 1932; Lazonick and O'Sullivan 2000; Bratton 2001; Veldman 2013), we point to another core construct in financialized corporate governance: the purely financial investor. Alongside the historical construction of the corporation in its contemporary judicial form, we point to the auxiliary construction of dispersed, collective and indeed oftentimes *forced* financial savers into financial capitalist investors, a process of pivotal importance to the 'reproduction of neoliberal social relations of production' (Harmes 1998: 117) and amounting to 'depoliticization' (Burnham 2001) of financial investment effectively 'turning labour into capital' (McCarthy 2014), producing a situation in which corporate labour re-appears in the public sphere as a transformed class, both as financialized individuals and as customers of financial services provided by institutional investors such as pension funds. The role of the institutional investor in corporate governance is that of an intermediary acting on behalf of investors, rather than being governors proper (cf. Schneider 2000).

We turn first to the academic discourse on corporate governance, and then to public documentation detailing responses to the recent crisis that emerged from the heartland of the financialized neoliberal world economy. As part of a wide-ranging regulatory response (Underhill 2015), the UK Law Commission in 2014 issued its recommendation to Her Majesty's Government on how to revise legislation pertaining to UK investment intermediaries, with an almost exclusive focus on domestic pension schemes. The Law Commission followed through on themes brought onto the national regulatory agenda by the Kay Review (2012). In a manner central to our methodology, we interpret all of these texts as construals of the crisis within the democratic system. (A list of documents studied is found in the appendix.) The purpose of these interpretations is to gauge the likelihood of re-politicising corporate governance, with a particular focus on the construction of investors.

We find that in practice these activities and texts to some (albeit marginal) extent 're-politicise' corporate governance discourse in the sense of open debate in the public sphere (Swanson 2008). With regard to construals of crisis at hand, we find evidence of practical retrenchment of de-politicised corporate governance. However, we also find sediments of a 'crack' in the ideational machinery applied, in the form of a clear demarcation between financial and non-financial motives of investment. In particular, there is a categorical opening for UK pension scheme managers to abstain from financial returns with reference to international conventions ratified by the UK on behalf of these same principals. Perhaps without seeking to do so, the UK Law Commission appears to be sowing the seeds of regulating the conditions for corporations in the direction of '*universal stakeholder value*' ideology. In such a de-naturalizing or de-essentializing conception, the democratic state begins to resume the role of sovereign, this time as an authoritative representative of dispersed, small-scale investors in globally active corporations, which tasks itself with interpreting their preferences in terms of *trade-offs* between multiple values such as human rights, equality, biodiversity, peace, and material powers of consumption.

We develop the argument in the following sequence. In the next section, we politicise corporate governance research by drawing on theories of financialized capitalism(s) of relevance to understanding national corporate governance regimes. In the third section, we offer an overview of corporate governance practice in the UK, broadly defined as practices of investment and management, after which we turn to (some aspects) of the regulatory response of the UK democracy to the recent economic crisis. In the fourth and final section, we discuss our findings in terms of a dominant neoliberal economic imaginary still pregnant with possibilities to re-politicize corporate governance in a financialized world economy through re-politicization of financial investment and the financial investor.

Corporate governance research in financial capitalism

It has been well documented that corporate governance discourse among the circles of power, particularly in Europe, has shifted from a legitimizing view of the giant corporate firm as a joint social accomplishment *within* the nation state to a view of it as the property of its shareholders and as a liquid form in global financial markets (Aglietta and Rebérioux 2005; Horn 2011). As such, the giant corporation transcends the nation state and becomes a global matter of concern, without being subject to any sovereign power (Bradley et al 1999; Bratton 2001; Veldman 2013). As if it were a universally uncontested concept, which it is not (Mintzberg 1984; Sullivan and Conlon 1997; Turnbull 1997), corporate governance itself, in a widely published tradition of law, political science, and economics, has even been *defined* as a matter of how shareholders obtain maximum financial returns on their investment. This *ideology* of shareholder value implies that the corporate purpose should be to maximize shareholder financial wealth. The *practice* of shareholder value minimally involves aligning corporate strategy and financial reporting to financial market expectations and aligning the interests of executives with those of their principals by rewarding them on the basis of shareholding or share prices (Aglietta and Rebérioux 2005; Froud et al. 2006).

The bulk of research on corporate governance has been depoliticized in a similar manner as that described by Swanson (2008) in regards to 'the economic' in general in the US. The conceptual framework guiding explanations in mainstream corporate governance and research is positivist. The research agenda is primarily set by Chicago economists conceptualizing the research object as the relationship between the shareholder as the principal, and the executive manager as agent (Mirowski and Plehwe 2009; Donaldson 2012). The general research question then is how the actions of agents may be aligned to the preferences of the principal. Most likely due to the American roots of the entire field of inquiry, the preference of the principal is assumed to be maximization of financial returns, while agents are assumed to be deceitful (Turnbull 1997; Lubatkin et al. 2005).

One particularly influential strain of literature is the one centred on the particular discipline of financial economics emphasizing the quality and content of corporate and capital market law, and even the overall character of legal systems, as powerful predictors of firm performance (e.g., La Porta et al. 1997; Shleifer and Vishny 1997). According to an overview by Davis (2005), this neoliberal tradition of 'law and economics' also concludes that politics, rather than law, the legal system, and religious or other 'demographic' variables, determine the overall shape of national corporate governance regimes. These studies in law and economics have therefore moved closer to understanding what political scientists (Roe 2003), economists (Duménil and Lévy

2004), geographers (Harvey 1989), anthropologists (Sklair 2002) and many others focusing on variations of capitalism and democracy have understood for some time. Large corporations, as representatives of a coalition of actors, be it investors, managers, or employees, lobby or 'capture' governments in order to gain advantage in the global marketplace, and this includes lobbying for corporate laws, financial market laws, labour laws, environment laws, etc., that benefit them (Beder 2012).

In short, the law and economics literature slowly discovered its own neoliberal condition of possibility: a political ambition to create and sustain liquid global financial markets. These unrestrained global financial markets were central to the US informal imperialist strategy when it plunged into crisis in 2008 (Brenner 2009; Duménil and Lévy 2011). The crisis has been managed with unprecedented levels of monetary and fiscal stimulus of the US economy, re-doubling the longstanding trajectory of failing to engage in re-distributional politics in America (Krippner 2010, 2012). Thus, all the ingredients of an unstable and inequality-generating global macroeconomic order remain in place.

Roe (2012), perfectly in line with the 'neoliberal thought collective' (Mirovski and Plehwe 2009), reiterates his longstanding political theory of comparative corporate governance in which the contest between the 'haves' and 'have-nots' constitutes one of the 'fundamental fractures' of the 'politics of capitalism' (*ibid*: 31). Roe acknowledges that the struggle between and within two *classes* constitutes the fundamental explanatory factor of variegated corporate governance institutions. Gourevitch and Shinn (2005) have significantly followed through on Roe's initiative and developed a comparative overview of corporate governance around the world, arguing for a political theory of corporate governance as a corrective to the 'demographic' approaches in the law and economics literature.

These writings from the Right embrace an understanding of empirical facts and correlations that Jessop (2015) on the Left grasps as cultural political economy, albeit without an explanatory understanding of capitalism as a social formation *destined* to undermine itself because of the inability of capital to perpetuate the conditions necessary for its own accumulation and its view of capitalism as a morally indefensible social order. Roe, among others, naturalizes the reified interests of investors and ultimately seeks to prevent internal division among capitalists, or challenges from others (e.g., 'labour') that could disrupt global capital flows and profits. Neoliberals acknowledge the need to secure control of the State(s) in order to secure their goals. Neoliberal and Marxist scholars, hence, converge on the explanatory understanding that politics determine corporate governance, while diverging on the normative values of such an approach. While ultimately ignoring 'the origins and nature of systemic change, the realities of political power, and the material causes and consequences of structural crises' (Wood et al. 2014), Roe develops his Schumpeterian argument on the fundamental divisions in contemporary capitalist economies, acknowledging that this struggle also takes place in people's minds, shaping their 'preferences'.

> Only when we understand how preferences for and against capital markets interact with institutions in the political economy will we understand the shape and extent of the capital market. Today's preferences, when effective and dominant in the political arena, can become tomorrow's governing institutions. (Roe 2012: 32)

Jessop (2015) builds on his own contribution to our conceptual apparati for understanding how the manner in which preferences articulated in political arenas become, or most often continue in line with, governing institutions. In crisis, the wide array of worldviews and preferences initially articulated in the immediate response to what appears to many social actors simply as uncanny, are subject to evolutionary political processes of de-selection and retention of ideas on how to regulate the economy.

With this explicitly politicized (Swanson, 2008) embrace of corporate governance theory and research, in the next section we turn to a specific field of corporate governance regulation, namely, corporate governance regulation in the UK broadly, and the regulation of domestic pension funds as corporate governors specifically. Retaining the ambition to politicize theory and research, we inquire into if and how the neoliberal order in the UK has been challenged by immediate crisis and more long-term transitions in this particular national context.

Corporate governance in the UK: Laissez-faire, crisis management and the 'non-financial'

BIRTH OF LAISSEZ-FAIRE AND THE GENTLEMEN'S CLUB

The UK is the birthplace of both industrial capitalism and of the concept of *laissez-faire* in the economic field. The City of London, representing a military and trading empire encompassing the entire globe, established itself in the 19th century as the home of international insurance and merchant banking (Arrighi and Silver 2001). In terms of corporate governance practices, the financial activities of the British aristocracy and the operations of industrial owners were generally treated as 'private' matters only rarely subjected to regulation by the state or the court, according to one particular judge, in order to avoid unwanted 'embarrassment of business men in the conduct of business affairs' (Cheffins 2000: 18). Cheffins (2001) argues that the establishment of liquid financial markets such as the London Stock Exchange from the very outset hinged on the development of extra-legal mechanisms of control. The centrality and reputation of financial intermediaries provided at least a modicum of confidence on the part of prospective investors that whatever stocks and other financial instruments were offered to them were of a certain sufficient level of quality. Although the annals of London's financial markets are not short on fraudulent schemes and scandals in which investors' riches have been plundered, during the 20th century, individual and collective British savings were continuously and increasingly channelled as equity and debt financing to large-scale listed corporations (including financial corporations in banking and insurance) based on 'trust' in the gentlemanly behaviour of powerful market actors. Cheffins' (*ibid.*) pivotal argument is that all major volume increases on London's financial markets *preceded* legislative moves on the part of the UK government in the spirit of *laissez-faire* (Habermas 1962). UK equity markets have gradually been regulated in response to practices in London rather than governmental game planning.

According to Burrell's (2002) survey of the literature, these economic practices travelled across the Atlantic and were subsequently transformed into contemporary US shareholder value ideology and practices of corporate governance, the embedding and disembedding of which has been amply documented. The US version of the corporation with a 'shareholder value' corporate governance model emerged later in the UK. According to business historians (Toms and Wright 2002) and legal scholars (Cheffins 2001), the managerially controlled, publicly traded corporation with dispersed ownership was not firmly established in the UK until the 1970s or 1980s.

UK corporate law has been adamant in its treatment of the corporate objective, at least until the recent crisis. Despite the recurrence of corporate scandals, corporate governance and control in the UK have not been subject to much new legislation, and even less so to political efforts at changing the coordination of the national economy. Pursuant to the Cadbury (1992), Greenbury (1995), Hampel (1998), and Turnbull (1999) reports (Stiles and Taylor 2001: Ch. 1), the City of London and UK corporations were left to their own neoliberal devices (Haxhi, van Ees and Sorge 2013). The UK Companies Act was revised in 2006, reaffirming the primary corporate purpose to be the 'benefit of members' unless otherwise stated in the corporate articles of association. The revised Act includes the much-debated Section 172, which implies that directors should consider the consequences for a range of stakeholders when judging, in good faith, and with requisite skill and care, which decision to make. This does not in any way alter that the overarching aim is to produce 'benefits for members', the nature of which is ultimately decided by shareholders rather than corporate directors or any other stakeholder, including the legislator (UK Companies Act 2006). UK corporate law remains firmly oriented to shareholder value, i.e., to the protection of the interest of the investor, be it as supplier of equity or debt capital. In other words, the UK is a non-sovereign state protecting the private interests of particular citizens rather than subjecting citizens to a sovereign will (see Veldman 2013).

In the global political economy literature, these developments are characterised as a competition between London and New York as global financial centres (Epstein 2005). The reaffirmation of shareholder value corporate law in the UK aimed to secure the attractiveness of UK financial and non-financial corporations as investment objects for global financial capital. London successfully challenged New York in the 1990s and 2000s for the title of the financial capital of the world. The laissez-faire approach to regulation on a range of matters, including accepting off-balance-sheet accounting and over-the-counter trading of increasingly opaque financial products was central to that strategy (Dickens 2005; D'Arista 2005). The 'comply or explain' model of corporate governance regulation was arguably another facet of this historical trajectory (cf. Haxhi, van Ees and Sorge 2013).

When the financial crisis erupted in 2008, it sent the UK into recession. According to Eurostat (2015), GDP per head dropped in 2009 and 2010. In 2013, nominal GDP per head was nearly back to its pre-crisis level and has continued to grow marginally. However, official unemployment stood at 7 per cent and youth unemployment at 20 per cent, while wages and productivity remained stagnant. This ‘recovery’ in national economic output has come at a great cost to public finances, a result *inter alia* of a series of bailouts of failed financial sector corporations (Underhill 2015). Central government debt (Maastricht definition) rose from the level of 40 per cent of GDP in 2007 to 90 per cent of GDP in 2014 (OECD 2015). In sum, the UK government has been borrowing massively to maintain both the financial sector and living standards, with no plausible model for economic growth in sight (Hay, 2011). At the time of writing, a referendum regarding an exit from the European Union has been held, with a majority voting for ‘Brexit’, probably a sign that broad layers of the population in the UK are still ‘learning into crisis’ (Jessop 2015) or suffering from ‘pathology’ rather than crisis proper (Hay 2011).

DEMOCRATIC RESPONSES TO THE CRISIS

In 2009, the Chairman of the Financial Services Authority, Lord Turner, launched what we perceived as a ‘non-pathological’ attack on self-regulated financial markets (Turner 2009), followed by Andrew Haldane (2011) at the Bank of England. Turner radically advocated a significant contraction of the financial sector not only in his writings but also in personal appearances in circles of power (Mirowski 2013). In a similarly radical spirit, the UK Ownership Commission (2012) spoke warmly of associational forms other than the listed limited liability corporation. On the other hand, the ‘independent’ Cox report (2012), commissioned by the British Labour Party, followed the established party line of New Labour to defend London City’s interests (Watson, 2013), and described no conflict between the flourishing of London as a global financial centre and UK competitiveness in other economic sectors, despite the continuous decline in sectors outside the financial services industry in the UK economy (OECD 2015: 33). The report describes economic recovery roughly as a matter of resolve.

In 2011, the new UK Conservative government tasked economist John Kay to inquire into the workings of UK equity markets and their role in promoting 'long-term decision-making' and prosperous UK businesses in global markets. The ethos of the Kay Review is captured in the following excerpt:

> The search for trust and respect is not a matter of nostalgia for an earlier era. (…) To observe that not everyone can be trusted, and that there should be serious penalties for breach of trust, is however very different from building a system of financial services law and regulation around the proposition that most people cannot be trusted. There is a real danger that such a system will stimulate the very behaviour it seeks to constrain, as people come to believe that appropriate standards of behaviour are defined by rules rather than by the integrity of the participants. (Kay 2012: 45)

In a spirit similar to that of the Cox report, but substituting 'trust and confidence' for 'resolve', the Kay Review argues for a return to more gentlemanly behaviour on the part of corporate managers and money managers alike. Financial market participants are held to be central in the Kay Review construal of crisis, as they are singled out as particularly significant in the recent economic development. The initial framing of the task of the Kay Review, with a focus on the relative macroeconomic decline of the UK, and with non-financial corporate directors placed centre stage, shifts in the foreword of the final report into the following:

> We must create cultures in which business and finance can work together to create high performing companies and earn returns for savers on a sustainable basis. (Kay Review, Final Report 2012: 5)

Cultural transformation then, not regulation, is the proposed solution. The problem is no longer the decline in the UK economy, but instead how to secure financial returns to savers. In its report on the implementation of the findings from the Kay Review, the government underscores that:

> […] we see good signs that both UK companies and investors share our commitment to culture change. If we are to ensure equity markets support long-term economic growth, it will be vital that they deliver on this commitment (DBIS 2014: 1)

Despite this overarching conclusion that everyone is 'committed' to cultural transformation, pursuant to the review, the government tasked its Law Commission to inquire into the legal conditions for operations of UK investment intermediaries. Long-term investments and pension schemes are supposed to be run with the long term in mind, and as such they must include judgements of many kinds of 'risks', the Law Commission (2014) argues in line with the Kay review. Current law tasks pension scheme managers (trustees) to make judgements about these risks. In the case of trusts, the making of such judgements is, according to the commission, connected to the 'fiduciary duty' of trustees. In the case of contract-run pension schemes, typically run by insurance companies, the commission recommends the creation of independent investment committees to further re-enforce 'consumer protection'.

In the commission's analysis, significant attention is given to various kinds of 'business risks', such as environmental, social, or governance risks, popularly known as ESG factors. These factors may, and indeed should, be included in the process of making decisions on how to allocate capital, reiterating arguments that have repeatedly been made in UK regulatory discourse (Aguilera et al. 2006). In this analysis, the historical record of returns and the volatility of classes of assets are never an adequate argument for making investment decisions, nor are short-term prognoses of the future. The key message of the commission's recommendation is that existing UK legislation (both statutory and judge-made law) *already* permits a 'long-term' perspective in managing assets within the frame of pension schemes, irrespective of whether these are run in the form of trusts or for-profit companies, or in terms of the defined benefit or defined contribution format. That is, there is no legal obligation to maximize short-term financial returns. However, there *is* a legal obligation to maximize financial returns indefinitely.

The UK Law Commission tackles head-on various non-neoliberal concerns raised by the British public. In line with much academic discourse, such a concern takes the alternative vantage point of a *stakeholder value* view of corporate governance, and implies an alternative position of the investor and of investment. The investor is then regarded as one who invests financial savings in order to maximize some notion of well-being of self or others, and not only financial returns. In the open round of consultations, numerous such concerns were raised by the wider UK public and pertained to quality of life arguments, specific moral concerns regarding particular products, and questions regarding the state of the UK national economy. The commission's response to these concerns was that current UK legislation does not allow much room for manoeuvring on the part of pension scheme managers when it comes to making investment decisions. Decisions, however they are motivated, primarily must not pose 'significant financial detriment' to the scheme (see, for instance, Point 6.46 of the Commission's Report). The quality of life for pensioners in a future United Kingdom, including the state of its economy, or the proliferation of particular products, should not be of concern to pension fund managers/trustees, despite the fact that it may be of concern to the future retirees. Such is the implication of existing UK law, and the commission recommends it should remain so. In other words, domestic pension funds in the UK must continue to work for 'neoliberal social relations of production' in which the only lawful purpose of domestic pension fund investment is the pursuit of maximum financial return.

THE FINANCIAL AND THE NON-FINANCIAL

However, in its analysis, the UK Law Commission also concludes that non-financial motives for investment, or abstention from investment, *may* be legally permitted under certain circumstances. For instance, Point 6.65 of the Commission's Report highlights the particular example of the UN Convention on Cluster Munitions:

> We accept that investment in cluster bombs is not necessarily illegal. But we think that the fact that there is an international agreement, ratified by the UK, which prohibits cluster bombs gives trustees reason to think that many people would consider them to be wrong. When coupled with letters from members agreeing, and no letters disagreeing, we think that trustees would have good reason to think that they were acting on members' concerns rather than their own. This may be an example where the evidential requirement to show that beneficiaries share the concern may be relatively light. (Point 6.65: 129)

The distinction between financial and non-financial motives for investment was a main topic in the ensuing consultation from the Department for Work and Pensions (DBIS 2015). The London-based lobbying organization International Corporate Governance Network argued against including the distinction in investment regulations arguing that '(f)orcing categorization of these ESG factors into binary "financial"/"non-financial" groupings is not necessarily helpful and can be a source of confusion' (ICGN 2015: 2). In another response to the consultation, Watchman and Wood (2015) point out that all the relevant arguments had been formulated a decade earlier in the Freshfields report (2005) authored by Watchman himself. This response summons the image of the investor as one who invests financial savings only in order to maximize future financial wealth, additionally protected by enlightened investment trustees/managers judging 'long-term' environmental, social, or governance related risks to those future financial returns. Trustees or managers acting on any other (non-financial) grounds would be breaking the law (and contravening morality), since 'it is not for pension fund trustees to play God with the money of investors and beneficiaries' (*ibid*: 2). However, such a god-like position is implicitly allotted to the investor, whose right to invest in anything, anywhere is rendered sacrosanct, and directly allotted to the 'vested interests' in the pension industry:

> The current remuneration system in the City is based on short-term profit taking and the frequent trading of shares. Any attempts to curtail or change this will be fiercely contested by the vested interests. The changes to the law on annuities is evidence that the government recognises that financial institutions do not put the best interests of the ultimate owners of the money above their own search for profits. (Watchman 2005: 8)

Apparently unaware that they have joined ideological hands with the ICGN (i.e., with the 'vested interests'), Watchman and Wood elaborate upon the argument against distinguishing the financial from the non-financial:

> This distinction between financial and non-financial considerations, as stated above, is unhelpful. There are relevant and material considerations and irrelevant and immaterial considerations. How, for example, is a distinction to be made in terms of the sustainability of financial investment between a bank, or a mining, or an oil and gas company which has a poor reputation or brand because of financial mismanagement and a similar type of company which has a poor reputation or brand because of environmentally damaging activities, human rights abuses, or bribing government officials or health authorities?
>
> It is financial impact, such as an inability to obtain exploration licences or finance, not the label attached to the matter which impacts on the financial sustainability of the investment which is relevant. If banks, as many appear to do, pay billions of pounds in fines and other conduct costs they are reducing substantially the profitability of the banks and returns to investors.
>
> Does it really matter in terms of financial loss to a pension fund, rather than how to address the issue, if the source of the loss is fraudulent activities of individual

bankers, poor governance by bank boards, corrupt practices such as bribery, lack of adequate due diligence, environmental damage leading to unsustainable investment or financing companies which use of slavery or child labour or destroy precious habitats or local industries?

All these matters may go to the bottom line. To describe as non-financial the use of child labour or trading in conflict diamonds or conflict metals is hardly helpful or relevant to investment. (Watchman and Wood 2015: 10)

The response from these individuals may be juxtaposed with the response from the Trades Union Congress, the labour union organization in the UK with the largest membership. In its recorded consultation response, the TUC (2015) first complains:

We would like to highlight our concern that the TUC was not included in the organisations to whom the consultation was sent. The TUC submitted evidence to both the Kay Review and the Law Commission's Review of Fiduciary Duty, from which this consultation stems. Given that amending the Investment Regulations was a significant part of the Law Commission's recommendations in its final report, it would surely have been logical to have sent this current consultation to all those who responded to the Law Commission's review. (TUC 2015: 1)

The TUC brief response goes on to point to another set of investment principles besides the Stewardship Code, namely the NAPF Principles for Stewardship Best Practice, i.e., investment principles developed by an association of pension funds rather than by associations of their suppliers (asset managers). TUC also points to the possible value of using the conceptual dyad of 'risk' and 'opportunity' to grasp the dual character of ESG factors as both threats and opportunities to corporate strategy. The question of financial and non-financial motives for investment is not touched upon.

After the round of consultations, the entire question of revising regulations on investment principles was bypassed during the autumn of 2015 and closed. The (then new) Conservative government response concludes:

In the light of this evidence and having considered the responses carefully we think that this is an area where guidance can be more effective than regulatory change, in particular because if it can be kept up to date over time. Taking the above factors into account, we do not propose making any changes to the Investment Regulations at this stage. (DWP, November 2015: 30)

Indeed, the Minister of State for pensions, the Baroness Altmann, emphasises that the government seeks to learn 'about burdens you would like us to consider reducing in order to make life easier for trustees and schemes' (*ibid*: 3).

In the following and final section, we discuss these regulatory responses to the recent crisis as reinforcements and possible openings in corporate governance discourse, with a particular attention to the apparently 'ungentlemanly' recommendation of distinguishing between financial from non-financial motives for investment.

Overall interpretation and discussion: Politicised learning into crisis

In general, the UK Law Commission presents gentlemanly recommendations supporting the neoliberal shareholder value orientation of pension funds as investors in financial markets. It strives to rid a wider audience of any notion that pension scheme managers would be legally required always to try to maximize short-term financial returns. In making these arguments, the commission relies on a 'behavioural finance' analysis of financial markets (e.g., Shleifer 2000) put forth particularly in the Kay review. Markets are described as prone to 'irrational exuberance', 'manias' or 'bubbles', resulting in 'short-term' current market prices, generated by all sorts of 'short-term' activity on the part of managers and investors alike. Financial market prices are therefore considered to be an imperfect benchmark for evaluating the financial performance of long-term investments. All 'risk' is not held to be adequately priced.

The UK policy documents scrutinized in this chapter, however, do not contain any recognition of a contradiction between the quest for financial returns for savers and the flourishing of UK businesses. First, this ignores the fact that the financial returns to savers may be sought anywhere in a world of largely unrestrained capital movement and hence may undermine investment in the UK. Secondly, the contradictory character of the basic argument is further underlined by the fact that global asset holding and global asset management in itself is the major industry in the UK (OECD 2015). This financial sector was the one primarily struck by 'crisis' (as opposed to long-term decline, as is the case with most other sectors of the national economy), as reported for instance in the Kay review itself. Hence, the Kay review starts off as a response to a real economic slowdown in the UK and construes the role of financial intermediaries as problematic in this respect. It does not address that the most evident crisis was in the financial sector. In line with, e.g., Hay's (2011) argument, we contend that such a construal of the crisis does not and cannot offer a plausible growth model for the UK economy. Regarded as a democratic response to the crisis, however, it does bring the matter of the role of financial intermediaries in the UK economy to the foreground. This question was also passed on to the regulatory context of the UK Law Commission. 'The re-politicization of the economic' (Swanson 2008) enters a second phase based on the Kay review's initial construal.

What is simultaneously accomplished is a silencing of the specifics of the current crisis. With brief reference to yet another review, the Walker (2009) analysis of corporate governance in financial companies, and despite the finding of Lord Turner in his review (2009) that corporate governance was not really an important factor in the run-up to the crisis, the collapse of banks, building societies, insurance companies and other forms of financial 'institutions' are attributed to 'short-termism' in corporate governance. This line of argument ignores that the financial system-wide increase of leverage and profitability in an economic upturn, and taxpayer bailouts in the inevitable downturn, has proven to be an extraordinarily profitable, viable and 'long-term' (intended or emergent) strategy on the part of the financial sector to attain what Ellen Meiksins Wood (2002) refers to as 'politically constituted wealth'. Such an understanding of the current crisis entails a view of financial sector actors as self-interested entrepreneurs rather than possessing an altruistic inclination to protect either the company, the customer or the taxpayer. The Kay review itself, along with, for instance, Watchman and Wood's consultation response in fact strongly support this sanguine view of financial sector actors.

Duménil and Lévy (2011) argue that the managerial classes have played a significant role in the social transformations of neoliberalism, functioning as an ally to the capitalist classes proper, and that this alliance was strong particularly in the US, where they played a central role in the establishment of the New Deal, the post-war compromise, 'as well as in the return to financial hegemony in neoliberalism' (*ibid*: 19). In Burrell's (2002) analysis, the UK evidenced a *return* to 'aristocratic' (i.e., financial capitalist) dominance. A reluctance to question the general integrity of financial market participants (primarily asset holders and asset managers, but also various other 'gatekeepers' such as credit rating agencies and investment advisors) underlies the many suggestions proposed by the Kay review to establish new 'comply or explain' codes, this time of institutional investor 'stewardship' of corporations.

Regarding corporate governance, the Kay review and the ensuing Law Commission appear to entail proposals that imply affording greater latitude for directors of UK corporations and asset holders/managers to protect existing corporate control arrangements if they so wish. Regarding the possibility of 'ungentlemanly' shareholder activism, particularly in the form of American takeover attempts, this is in line with the predominant pattern of corporate governance regulation in the UK since the 1950s (Toms and Wright 2002: 98–101). In Roe's terminology, capitalist 'haves' know that unrestrained global capital markets are good for them and bad for the 'have-nots'. The haves then work through any government or regulator available to defend their existing positions of privilege. In line with Duménil and Levy (2011), we argue that the re-negotiation that has taken place in this context is one between two parties to the same neoliberal 'centre-right' class coalition. The transnational capitalist class liaises with senior managerial labour in the financial services industry, but also with another fraction of the 'haves', the most senior managers of UK industrial and trade corporations, which incidentally make up the advisory board of the Kay review. Some privileges to protect senior management positions are afforded to the top layers of the managerial class in order to secure their continuing support for the overall more important agenda of financialized neoliberalism and shareholder value-oriented corporate governance.

In sum, the UK Law Commission work on investment intermediaries reinforces the cornerstone of the neoliberal ideology, namely, that corporate investment *should* be evaluated only in terms of its financial return, actually or potentially paid to shareholders as dividends. The commission clarifies, or more accurately *repeats*, that this relates to the 'long-term' shareholder (financial) value. The rather tricky question of operationalizing this notion of 'long-term' is not addressed at all.

Following Swanson (2008), 'the economic' (in this case, more specifically the investor), may be re-politicised both conceptually and by being regarded as a matter for democratic deliberation. Empirically, we have turned our attention to the open, public and deliberated response to the recent economic crisis (or perhaps only pathology) in the UK. The main story is one of construing the crisis as a result of irrational processes, to be learnt from and prevented from reoccurring by becoming more rational, particularly by establishing better 'culture' of 'trust' and 'stewardship'. We regard this as a continuation of 18th- and 19th-century moralism, so pervasive and significant in UK (industrial) history (e.g., Bendix 1956; Habermas 1962).

The Law Commission, however, also promotes a clear distinction between the 'financial' and the 'non-financial', the very starting point of any (critical) re-politicization of investment. We expected and found the incumbent power brokers of the City to respond vigorously to any such initiative from Her Majesty's Court. Recent politico-economic reality of UK history, marred by 'irreconcilable financial schizophrenia' (Watson 2013: 864) featuring the Bank of England taking much less of a *laissez-faire* position than any major party in Parliament, underscored by our observations here of the responses to the Law Commission's proposals, reinforces our expectation. In the last instance, we propose that the service rendered by a centre of a capitalist accumulation regime is providing a safe haven for capital (Arrighi and Silver 2001; Duménil and Lévy 2004) by avoiding precisely the kind of re-politicization implied above once financial investment has become de-politicised.

Watchman, the senior legal scholar distancing himself from 'Milton Friedman and other America neoliberals in the 1970s' (Watchman and Wood 2015: 6) and the International Corporate Governance Network refuse to acknowledge any notion of contradiction between doing good (saving world from climate change and protecting human rights) and making money. (The clerks at the court may intuit the growing absurdity of such a worldview; perhaps that is why they wrote what they did on cluster bombs.) One possible explanatory understanding would be to regard it as an expression of that particularly British form of 'embarrassment' (Cheffins 2000); in this case, in the face of making money from cluster bomb manufacturing. Watchman and Wood, as we saw above, point to other abominations such as climate change, child labour, accounting fraud, pollution or community destruction. They refuse, however, to acknowledge any connection to the pursuit of financial returns on investment. In fact, they argue that 'science' has already shown that it is in fact lucrative to invest against all those abominations. If that were true, it would of course have happened long ago.

The Law Commission, however, based on its own logic, could have argued that UK pension scheme managers should consult with their beneficiaries and record their written responses before investing in any corporation engaging in practices that are questionable in terms of international conventions such as the United Nations' Universal Declaration of Human Rights, ratified by the UK in 1998. A more general application of such a principle would make it at least a matter of serious consideration whether to invest in, just to give one prominent example, Apple Inc., dependent for *all* of its profits upon low-paid, or even unpaid, predominantly Chinese labour enjoying very few of their Human Rights (Clelland 2014). Or, it might have argued that, in the long run, these conditions in global production networks pose the risk of 'significant financial detriment' for anyone with investments in them. The commission *does not* make that argument, or any other such argument. The heart of the matter is that corporate action now and in the future (business strategies, lobbying, and most formidably, political campaign financing) will in part *determine* the financial ('material') relevance of various non-financial factors such as climate change, human rights protection, and the overall ratio of profits to wages in the (world) economy.

Guided by the deeply entrenched notion in comparative corporate governance research that today's preferences can become the governing institutions of tomorrow, we suggest that were the United Kingdom to go down the path hinted at ever so subtly by its Law Commission, it might once more be the first mover in the *longue durée* of capitalism, in something amounting to a re-politicization of corporate governance through re-politicization of investment and of the investor. This investor is not just any investor; it is 'labour gone capitalist' (McCarthy 2014). The UK regulatory attempts further establish 'the labour gone capitalist' as a new significant *rentier* central to neoliberalism (Harmes 1998). In Krippner's (2015) analysis of the post-crisis US economy, she argues that the unwillingness of the state to act as state proper, where policymakers openly address distributional conflict under scarcity, has returned to centre stage in American political life. How would this neoliberal state and its unwillingness to act as state translate to our UK-based regulatory context? The UK Law Commission could be characterised as entering into a distributional tension within the financial system, apparently engaging in strengthening the 'labour gone capitalist' shareholder status and the future value of their past earnings. As such, the UK Law Commission continues the depoliticising legacy of the Blair government (Burnham 2001), a generalized unwillingness of the state to act as state proper.

We sympathize with Veldman's contribution to the debate on the 'demise of the state', which offers 'opportunities to rethink the nation state or a supra-national equivalent as a dominant supra-individual political representation, heir to the absolutism of sovereignty and thus, heir to the prerogative of creating, controlling and regulating all legal constructs and their relative positions' (Veldman 2013: 27). We, along with several respondents to the UK Government consultation on the matter (Unison 2015; ClientEarth 2015), point to the continuing possibility of lifting the practically effective ban on UK pension funds acting as representatives of responsible (global) citizens, acknowledging the trade-off between financial return and other non-financial values, with the possibility of pointing to the supra-national authority of international conventions for workable definitions of these non-financial values. Such a manoeuvre would even be reminiscent of the 'extensive cosmopolitan-imperial' UK capitalist world order of the 19th century (Arrighi and Silver 2001), with the exception of its capitalist logic of incessant accumulation.

None of this will happen, of course, unless 'we understand how preferences for and against capital markets interact with institutions in the political economy' (Roe 2012). Here, we have attempted to show that such preferences among scholars and policymakers alike may oftentimes be the result of 'politicised learning that reflects power relations and ideological or social barriers that block active learning' (Jessop 2015: 103), while, at the same time, uncovering and advancing sediments of a reconfigured economic and social imagination. Whereas the 'labour gone capitalist' category has been outmanoeuvred from wielding influence over their own savings and the industrial base on which it depends, UK regulatory activities incorporate the birth of a new category, that of the 'labour rentier citizen' whose – we suggest, fundamentally confused – class interest may still crystallize into one of 'universal stakeholder', perhaps even with an ambition to transform the world, this time for the better and without violence. For now, unsustainable neoliberalism appears to be the path selected by dominant social forces still learning their way into yet another crisis.

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CHAPTER 7

How do low-carbon industries emerge?

The evolution of solar photovoltaics in the United States and Japan, 1973–2005

MAX JERNECK

Introduction

Avoiding catastrophic climate change requires a rapid development of low-carbon industries. Our understanding of how that may occur can be informed by previous examples of low-carbon industry emergence. By comparing relatively successful and unsuccessful cases, it is possible to identify driving and blocking mechanisms. This chapter takes as its example a historical comparative case of one low-carbon technology, solar photovoltaics in the United States and Japan, from the period of the first oil crisis in 1973 until 2005. American producers dominated the industry initially but by the end of the period their share had dwindled to under ten per cent, while Japanese producers had captured 50 per cent (Jäger-Waldau 2006).

Explaining the different outcomes in the two countries can be done through a historical comparative case study. Since the divergence between them was undoubtedly caused by multiple interrelating factors, it will take close examination within each case, as well as across-case comparison to identify and untangle them. Central actors need to be identified, and their actions studied in context of situational structure, relations with each other, and the institutional arrangements regulating their interaction. By identifying and evaluating 'difference makers', it is possible to draw conclusions about which aspects of the low-carbon development process were amenable to human action, and therefore relevant to the task of devising a strategy for the future transition to a low-carbon economy. Knowing where to look requires a theory of both the mechanisms driving industrial change in general, and the particular institutional arrangements regulating them in the countries under study.

Theory

Since new technologies never emerge on a level playing field but are constrained by the existence of powerful incumbents, they need protected spaces to grow in. These can be provided by large private corporations, but since they rarely innovate in ways that would undermine their existing capabilities, we can expect truly radical low-carbon technologies to come from new upstarts. Protected spaces would therefore need to be provided by the state. State support is crucial for radical new technologies in general (Mazzucato 2013), but particularly for environmental technologies with little direct economic value. As Kenney and Hargadon (2013) demonstrate, private venture capital is not a viable model for most low-carbon technologies, which are capital-intensive and in direct competition with existing alternatives. States often provide protection for nascent industries, but this mainly occurs when it concerns their core activity, i.e., survival and expansion in the international state system. In other words, for the state to pursue industrial policy to develop low-carbon technology, they need to be pushed by outside actors.

Social movements are the primary initial actors, supporting transitions either by promoting new technologies directly or by blocking conventional technologies and thereby forcing policymakers to think creatively about technology policy. Social movements succeed when they manage to build alliances with other powerful groups, or act as a broker between them. They also need to frame their message in ways that are attractive to the public and that conform to accepted cultural norms (unless, which is more unusual, they manage to change those norms). Political pressure from social movements can lead the state to support low-carbon industries. Ultimately, however, the success of industrial policy depends upon the innovative capacity of enterprises. The analysis must therefore also include a theory of innovation.

The defining feature of innovation is its fundamental uncertainty. While regular investment decisions are decided by convention and from extrapolation of previous trends, innovation requires a vision of a future which is radically different from the present. Investment in innovation must be made on the basis of fictional constructions of the future (Beckert 2016). Collectively held expectations create the certitude necessary to commit resources to otherwise risky investments. As long as expectations do not stray too far from real technological constraints, they can be self-fulfilling. These are socially constructed, if only in the sense that they must be shared if they are to be realized. Uncertainty thus compels economic actors to adopt a pro-social orientation; anonymous market transactions are avoided in favor of transactions through organizations or networks (Powell 1990).

The process of innovation requires various actors to cooperate fruitfully. To understand their roles, they can be analyzed as a set of ideal types. At the micro level, innovation is carried out by creative people with deep technological knowledge who are given the resources to develop their ideas until they can generate a return. Innovation begins with the *entrepreneur* who has a new idea, and the *financier* who is needed to finance the venture until it becomes profitable. If the venture is successful, the entrepreneur can hand over operations to the *manager* who supervises *workers*. There are potential tensions between these actors which must be resolved in order for the innovation process to proceed. Power configurations and institutional arrangements determine how, or whether, that occurs.

Since it takes time for the entrepreneur to assemble innovations before they can generate a profit, the initial stage must be financed by credit. As Schumpeter (Schumpeter 1934: 126) noted, this makes the financial system the 'headquarters of capitalism', determining which technologies are allowed to emerge. Before investing in the ideas of an entrepreneur, the financier must confront various forms of uncertainty. For new entrepreneurs, there is no history of income statements, no existing asset that can be used as collateral. There is only an intangible idea, which can only be evaluated on the basis of expected future profitability. Financiers who determine which projects to fund must do so on the basis of knowledge of the specific production process involved, as well as the character of the entrepreneur. This makes credit creation an inherently social process, 'embedded in relations of a strikingly personal sort', as Randall Collins (1986: 137) puts it. In an uncertain world where investment decisions are based upon faith and trust, creditworthiness and market opportunities are always 'socially constructed' (Dymski 1998: 251). An entrepreneur's network position determines his prospects for turning the venture into a going concern. Ideally, it combines close ties, transmitting the trust needed to maintain a credit line, with ties to more distant connections, enabling access to more remote information and market opportunities (Uzzi 1999). If one financier grants a loan to the entrepreneur, it sets off a 'sociological multiplier' which signals to other financiers that the venture is a sound investment (Reisman 2004: 55). Conversely, if one financier rejects an investment, it signals to others that it might be wise to do the same.

Fruitful cooperation between entrepreneurs and financiers is not guaranteed, however. Bankers do not normally invest the time and effort it takes to evaluate the ideas of new entrepreneurs lacking collateral. Most new ventures are financed by the entrepreneurs themselves or by money from family and friends (Smith 2009). Entrepreneurs and financiers also have differing and potentially conflicting agendas. The entrepreneur wants to keep capital tied down in production, while the financier wants the production phase to conclude and output converted into money. To use Carlota Perez's (2002: 6) terminology, the entrepreneur represents *production capital* which is tied down in equipment, personnel, knowledge and routines, while the financier represents *financial capital* which is free to move. The underlying tensions tend to drive financial capital to decouple from production, as financiers constantly devise innovations in financial speculation.

Their differing logics create a tension at the heart of capitalism. If the agents of financial capital could, they would rather skip the production phase altogether and turn money directly into more money. Institutional arrangements determine whether this strategy is possible. Financial capital may aid creative destruction by redeploying resources from old to new industries. But it may lack the patient capital to sustain them. For innovation to proceed, production capital and financial capital must be made to operate in tandem. Whether this occurs is an empirical question which varies at different times and places, making it important to be attuned to historical and institutional analysis.

If the entrepreneur succeeds in turning the venture into a going concern, he or she can hand over operations to the manager, who supervises workers. This introduces another tension, that between the capital and labor. Production and finance capital both belong to the capitalist class. Their collective goal vis-à-vis workers is to extract as much effort as possible for the least cost. Conversely, workers can be viewed to have the opposite goal, to exert as little effort as possible for as much pay as possible. The effort-minimizing worker may predominantly apply to alienated labor, however. Innovation would not be possible if human beings did not have an inherent will to create, an activity that is rewarding in its own right. The task of the innovative enterprise is to harness this drive.

Innovation can be defined as an information creation process (Nonaka and Kenney 1991), and the actors with the most tacit knowledge about the production process are in the best position to contribute to it. Most innovation is incremental, consisting of individually minor but cumulatively major improvements to work processes and equipment. Workers, who have local, tacit knowledge to upgrade the work process and equipment are the major contributors to the process. In settings where workers are barred from participating, or where their tasks are narrowly defined and require few skills, their incentives and abilities to improve the work process are greatly diminished (Lazonick 1993: Part 1). Segmenting workers from management decisions impedes innovation while integrating workers into the work process advances it.

An innovative enterprise must resolve both the tension between production capital and financial capital, as well as that between capital and labor. The balance and relations between are determined within the firm by who controls it. It is also shaped by institutional context. The three nodes of innovation – financial capital, production capital, and labor – are regulated by different institutional arrangements in different countries. It takes conscious institutional bridging to connect them, often occurring during extraordinary political events such as economic depression or war. Path dependency then tends to reinforce them.

Beyond internal power dynamics, a firm's strategy is shaped by its position relative to other firms. Markets are populated by incumbent and challenger firms (Fligstein 1996). Incumbents seek to stabilize their position. Challengers normally have to operate within the confines set up by incumbents, although in certain circumstances they can upend the market and move into the incumbent position themselves. The main objective of both is to avoid direct competition (White 1981). This can be achieved by controlling inputs and outputs through vertical integration or by creating niches by diversifying into new lines of business. Power asymmetries between incumbents and challengers are also observed by third parties, most notably financiers, who determine whether they want to invest in a firm based on the competition they face. O'Sullivan (2005: 6) suggests that 'we could ask whether incumbent firms dominate because they are more innovative or because entrants are too financially constrained to compete with them'.

To sum up, studying the development of low-carbon technology requires attention to the strength of environmental social movements in the polity, the capacity of the state and its relation to other power centers, and institutions connecting production capital, financial capital and labor among private enterprises. The analysis in each case will begin with political economy, i.e., the relation and balance forces between state and capital, and move on to the polity, i.e., the strength of citizen groups and ideological currents in civil society. It will then examine policy and the state's capacity to implement it, determined by the structure of the state bureaucracy. Finally, the analysis will center on private enterprises and their relations with each other and financiers.

Case One: the United States

The United States was the birthplace of the solar cell, and American firms dominated the industry in the 1970s. Beginning in the early 1980s, the American PV industry lost ground to foreign, and particularly Japanese, competitors. By 2005, the American share of the global market had declined to under ten per cent. This section will examine the causes behind this relative decline. The analysis begins with an overview of the American political economy in the 1970s and 1980s, before moving on to the polity, the state, and the private sector.

POLITICAL ECONOMY

The 1970s were marked by multiple crises which impacted the evolution of the PV industry. The decade began with environmental crisis, including a massive oil spill off the coast of southern California, leading to strong citizen pressure in favor of environmental regulation and the formation of the Environmental Protection Agency (EPA). Soon afterwards, the first oil crisis struck, putting the need for new energy sources on the public agenda. These two crises favored the development of photovoltaics. Other crises worked in the opposite direction. Stagflation was perceived to refute Keynesian economic policy and vindicate the monetarist theory of Milton Friedman. It de-legitimized regulation and the idea of state intervention, with policymakers 'picking winners'. While the first energy crisis had sparked policy experimentation with alternative technologies, the second energy crisis in 1979 led to a focus on more immediately available energy sources.

The 1970s also saw a shift in the power balance between social movements and business interests (Vogel 1989). When the decade began, American business was on the defensive. Social movements encroached on them, calling for stronger regulation. Business mounted a counterattack, which bore fruit towards the end of the decade and culminated with the election of Ronald Reagan in 1980.

POLITY

The American environmental movement grew stronger in the 1970s, aiding the development of photovoltaics in several ways. A solar lobby was formed and even became involved in the policy process for a short while during the Carter years. The environmental movement consisted of two broad factions, old-school conservationists and a more radical branch associated with the 'deep ecology' movement (Mitchell 1980: 348). Solar activists affiliated with the former camp emphasized slow progress and avoiding over-optimism, while more radical solar activists saw the turn to solar as part of larger plan to remake society (Orr 1979). One of the most attractive features with solar energy, they thought, was the fact that it could bypass centralized power structures. Switching to solar was part of a greater shift to a more decentralized and democratic society, outside the reach of corporate and government power. 'Solar advocates saw their preferred technologies leading to their preferred social arrangements' (Laird 2001: 190).

Environmental concerns were shared broadly by the public. The message of the environmental movement was in tune with the general climate of opposition to concentrated political and economic power. But the movement had only a narrow social base, consisting mainly of upper-class citizens. There were no successful efforts to unite labor, environmental and consumer movements to promote solar energy (Etzkowitz 1984: 427). Neither did it succeed in presenting its ideology in a cultural frame attractive to the public. The environmental movement's reform strategy centered around state regulation (Buttel and Larson 1980: 326), which came under attack during the general anti-regulation sentiment of the late 1970s, spurred both by abject failures of regulations, and the resurgent business community's deregulatory counter-narrative.

The environmental movement did not lack organizational resources or public support. But it failed because its vision of progress was fundamentally at odds with that of both the public and the policymakers the movement sought to influence. While the actions of solar advocates in expanding the active support for solar energy was short-lived, they played an important role in blocking alternatives, particularly at the state level. Its main influence on policy was indirect. By raising awareness of environmental issues among the public, legislators came to consider it a popular issue with voters (McFarland 1984: 520). The environmental movement made sure that energy policy after the 1973 was not entirely directed at conventional sources.

POLICY

State policy affected American PV firms in several ways. The late 1970s and early 1980s was a period of tight fiscal policy and extraordinary tight monetary policy. The turn to monetarism in 1979 sent interest rates soaring and caused a sharp appreciation of the dollar, factors identified as major obstacles to PV firms (Coyle and Hawley 1983: 12, US Congress 1985: 53). Other general policies which impacted the PV industry included a relaxation of antitrust enforcement, allowing large conglomerates to compete unhindered with small PV firms, and financial deregulation, making new financial instruments and practices legal, enabling corporate raiders to restructure firms in the 1980s.

Energy policy affected PV more directly. A federal research program to advance photovoltaics was launched in 1972, and given further attention by the oil price hikes in 1973. The federal government supported the industry through demonstration projects, laboratory testing, subsidies for R&D, tax credits for homeowners, and, towards the end of the 1970s, a commercialization program. Some of these measures were highly effective, and even crucial to the emergence of the industry. Federal spending on research and development exceeded private spending by more than 2 to 1 (Roessner 1982: 124). According to one study, testing at the Navy's Jet Propulsion Laboratory greatly increased reliability and reduced the failure rate of solar modules from 45 per cent to 0.1 per cent (Varadi 2014: 96–7). While several of these activities were vital to the growth of the industry, the program as a whole was hindered by the usual problems of American industrial policy in the civilian realm: bureaucratic weakness, capture by vested interests, political rivalry, and constant policy changes.

Before the 1973 oil crisis, energy policy was a fragmented field, composed of a multitude of different and competing interests (Laumann and Knoke 1987: 189). Policymakers struggled to centralize energy policy throughout the decade, culminating in the creation of the Department of Energy in 1977. Chalmers Johnson (1982: 21) likened the process to an attempt to experiment with Japanese-style industrial policy. It was not successful, as it conflicted with underlying state structures and industrial policy paradigm, and was consequently politically contested from the start. As Ikenberry (1986: 121) notes, 'attempts were made in the 1970s to alter the state's structural capacity in the energy area, and they proved unsuccessful'.

Renewable energy policy during the decade following the first energy crisis had a 'remarkably stormy history' (Frankel 1986: 61). Programs to support new technologies went through a 'sharp series of twists and turns', as leading ideas, interest groups, and political factions changed. The sharpest line of difference can be found between the Carter and the Reagan presidencies, but even Carter was not more than reluctantly committed to developing renewable energy. Towards the end of his term, he was beset by more urgent problems, including recession and the Iranian hostage crisis. State action was confined to short-term measures to put out political fires rather than long-term strategies to develop new industries. Apart from a brief period of solar activism, energy policy never changed from its original focus on conventional sources and nuclear power. Public spending on energy R&D increased by a factor of 6 from the early to the late 1970s (Norberg-Bohm 2000: 128), but the vast majority of it went to fossil fuels and nuclear energy. Subsidies for renewable energy at their peak amounted to less than half the subsidies provided for coal, which in turn received less than half the subsidies for nuclear energy (Etzkowitz 1984). And subsidies to nuclear energy paled in comparison to subsidies to the oil industry. After the 1973 oil shock, they increased by 336 per cent, from $24 billion $120 billion (Etzkowitz 1984: 426–7).

As a new field, energy policy was constructed around existing power structures. Dominant sectors in the military, large corporations, and, in particular, the nuclear power industry directed energy policy to fit their purposes. The agency responsible for PV, the Energy Research and Development Agency (ERDA), had a strong orientation towards nuclear power, with 'virtually the entire staff' coming from the newly disbanded Atomic Energy Commission (Strum and Strum 1983: 137). Many of the same people, along with their pro-nuclear orientation, would later carry over to the Department of Energy.

There were two competing visions of how the PV industry should develop. The pioneering solar entrepreneurs envisioned an industry of small-scale energy production, off the grid (Perlin 1999: 57; Varadi 2014). Solar energy was too expensive to compete with conventional sources, but had the advantage of being usable in remote locations or at sea. The pioneers saw a reasonably large potential in selling solar panels for such applications as roadside emergency phones, signaling systems for train crossings, electric fences, mountaintop communication centers, African villages, navigational aids and consumer electronics. These markets could be served by small firms, without much investment in research or large production facilities. Profits from these sales could then be plowed back into technical improvements, enabling a further and gradual expansion of the market to less remote locations until the technology was viable for widespread use. Modest policy measures such as mandating lights at remote train crossings were considered more helpful to spur the industry than lavish research grants (Perlin 1999: 78).

The other camp consisted of the energy policy bureaucracy and closely affiliated large manufacturing and energy corporations (Laird 2001). This camp was wedded to the idea of utility-scale photovoltaic generation, competing directly with conventional sources of energy. Proponents of this view favored a massive increase in research and development to improve the efficiency of solar cells in the laboratory until they could compete with centralized energy production. A rapid move towards large-scale mass production was considered necessary to bring down costs. Both activities were capital-intensive, which meant that they needed to be conducted by large corporations.

Representatives from small businesses and the Small Business Administration strongly expressed concern that small PV firms faced unfair competition from large corporations (US Congress 1979; 1983). The DOE's report on funding administered by research laboratories (SERI, Sandia and JPL) between the years 1979 to 1982 stated that small businesses received between 7 and 21 per cent, while big businesses received between 38 to 72 per cent (US Congress 1983: 118). Calls were made to invoke antitrust laws, but they were difficult to apply to, particularly in emerging industries (Wilcox 1981). Moreover, the ideology shaping antitrust legislation itself changed during the time of investigation. The trend during the 1970s was towards greater acceptance of oligopolistic competition when it led to lower product costs for the public (Wilcox 1981: 726). The DOE competition office maintained that there was no action needed; oligopolistic competition between large corporations was enough (Wilcox 1981: 725). It was also concluded that 'potential competition' existed in the form of electronics companies, whose considerations about possibly entering the industry had a disciplining effect on the participants within it. It is true that American electronics companies potentially could have become major players in the PV industry – that was the case in Japan. Why this did not occur will be outlined further on in this chapter.

In 1977, the DOE proposed a procurement plan for PV modelled on the success of the semiconductor program of the 1950s and 1960s (Hart 1983; Etzkowitz 1984). It had significant differences, however, the most obvious being size. A second difference was that while transistors ordered for spacecraft and missiles had a clear purpose, solar cells ordered by federal agencies did not, and were not subjected to rigorous reliability tests. The semiconductor program was based on the premise that the military needed semiconductors and integrated circuits of high quality, no matter the cost, making it highly profitable to enter the business. The program for photovoltaics on the other hand, aimed at lowering cost. Manufacturers delayed investment in plants because they expected rapid cost reductions to make them obsolete in only a few years (Roessner 1982: 125–126). The program did not become very attractive, and in the long run, costs, and therefore profits, would decline. Unlike in the semiconductor program, where federal agencies announced a steady demand for the foreseeable future, the federal PV program could make no such promises.

The market-enhancing approach of the semiconductor program was not in effect towards the PV industry, because the DOE did not have the bureaucratic strength and connectedness to industry that would have enabled it. As a weak agency without much bureaucratic autonomy, the Department of Energy did not escape the fate of its predecessor of being controlled by existing vested interests surrounding it. With few resources, the DOE was dependent upon large corporations to facilitate this process. Reviewing hundreds of applications, many of them written without professional experience, and deciding how to distribute grants would have been an overwhelming burden for the department. Paul Maycock, the director of the DOE's program for solar electricity, admitted a bias towards large corporations, saying it was difficult to do business with small firms, as they lacked sizable staffs and skills in presenting proposals (Nag 1980). Even near the height of solar power optimism in the United States, he expected only the largest firms to survive. "In the end, we are going to have four companies, as in the automobile industry", he predicted.

Reagan entered office in 1981 with the intention of abolishing the Department of Energy altogether, although he did not succeed in breaking down congressional resistance. The administration did succeed in cutting support for commercialization programs, which were deemed to be intervening in the realm of the market and left only early research, which was considered as a legitimate correction of market failure. Notably, energy sources with powerful constituencies, such nuclear and oil, did not have their funding cut.

In sum, energy policy greatly aided the photovoltaics industry by providing research, laboratory testing, reliability standards, loans, demand and legitimacy, but it concentrated the industry largely into the hands of large corporations. This would not necessarily have been a problem; in Japan, PV policy was also largely geared towards large corporations. But the organization and governance of large American corporations differed greatly from their Japanese counterparts, making them unsuitable developers of the technology.

PRIVATE ENTERPRISE

The terrestrial American solar photovoltaic industry was founded by a handful of entrepreneurs. Their main difficulty was finding willing investors who could provide *financial commitment*. They managed to gather enough money from family and friends and sometimes more distant investors to launch their enterprises (Berger 1998: 69, 76; Varadi 2014: 20), but they soon found it difficult to attain the needed funds to expand.

The first American PV firm to focus on the terrestrial market was Solar Power Corporation (SPC), founded in 1973 by Elliot Berman. He originally took his idea to a number of venture capitalists, but they 'weren't very venturesome', and declined the offer (Perlin 1999: 53). Instead he turned to the oil company Exxon, which made SPC a subsidiary. The second firm to emerge was Solarex, also founded in 1973, by Hungarian immigrants Joseph Lindmayer and Peter Varadi. They did not have any luck courting venture capitalists either, visiting 20 of them without success, and developing 'allergic reactions if somebody mentioned the word "venture capitalist"' in the process (Varadi 2014: 19, 192). Bill Yerkes, who founded the third major PV firm Solar Technology International (STI) in 1975, visited an estimated 75 venture capital firms (Johnstone 2011: 44) before selling his firm to the oil company Arco two years later.

Solar Power Corporation, Solarex, and Solar Technology International dominated the industry, holding around 80 per cent of the American market into the 1980s (Richman 1983). If they had trouble securing venture capital, less prominent firms had no greater luck. Robert Willis, who founded Solenergy, was turned down by ten venture capitalists, reporting that they were not interested in risky ventures but rather in established but fast-growing concerns (Ellis 1979: 13). Paul Maycock, who managed the Department of Energy's photovoltaic program, assisted several small firms in their efforts to raise venture capital without being able to raise 'a penny'. He cited the fact that 'private sector-risk capital wants to have return in the next 2 to 3 years' and that '[t]hose things that are 3 or 4 years out are very difficult to get funded' (US Congress 1983: 5, 18).

Beyond a lack of information, small firms had difficulties securing finance because investors knew that huge conglomerates were in competition with them (Berger 1998: 80). Most independent entrepreneurs were compelled to sell their firms to large conglomerates, worsening the situation for the few independents that remained.

The American PV industry was greatly affected by changes in corporate structure and strategy from the late 1960s to the 1980s. In the late 1960s, a new clique of financially oriented managers came to dominate American corporate governance (Fligstein 1990). Their conception of control was to manage the corporation like an investment portfolio, buying and selling firms in other lines of business. As Espeland and Hirsch (1990: 78) describe them, '[t]hey were more financiers than managers, concerned with deal-making more than with the day-to-day operations of the companies they bought'. Consequently, most American corporations evolved into financial conglomerates, managing their subsidiaries from central headquarters with an arm's-length approach. Financial conglomerates 'tended to be "quite thin at the top", their administrative structure fashioned simply to watch over and allocate capital among a portfolio of businesses, there being no central research and development or central staff-coordinating offices' (Rumelt 1974). Tacit information about production was transposed to formal information as decision-making moved from the shop floor to managers relying on quantitative measures such as return on investment, a development that was not conducive to innovation (Lazonick 1992). As conglomerates expanded into ever more diverse product lines, *organizational integration* eroded and *strategic control* moved out of the hands of personnel with intimate knowledge about production into the hands of financial managers in central headquarters.

Bill Yerkes of STI described his firm's parent company Arco as a 'bumbling behemoth' with no knowledge of photovoltaics or even of manufacturing in general (Berger 1998: 80–4). Against Yerkes's protests, the company abandoned research in cadmium telluride and switched to amorphous silicon, resulting in a defective product that had to be withdrawn from the market, twice. Despite its $200 million investment, Arco did not manage to turn a profit. Anticipating an expiration of tax credits, Arco rushed to construct the world's largest PV plant without properly vetting the technology. Completed in 1985, it never went into operation. Similar problems plagued other conglomerates. RCA had pioneered thin film solar technology but lacked the managerial resources to commercialize it and sold it instead to competing Japanese firms (Johnstone 1999: 156–8). While conglomerates provided the PV industry with *financial commitment* through cross-subsidization, they lacked the other two social conditions of the innovative enterprise, *strategic control* and *organizational integration*. In the 1980s, financial commitment would erode as well.

When large corporations took over, so did the large-scale vision they favored. Elliot Berman's small-scale vision for Solar Power Corporation clashed with Exxon's, and when he left in 1975, the firm lost its leadership in building niche markets (Varadi 2014: 110, 129). Solarex had catered to niche markets during the 1970s, but after it became a subsidiary of Amoco, the focus began shifting more towards the 'big-picture' goal of reaching 'grid parity' with other forms of conventional energy production (Varadi 2014: 187). For oil majors to make a satisfactory return on their investment, they had to break through into the grid-connected utility electricity market. As one observer of Arco put it, 'building solar-powered water pumps for Egyptian farmers was not Arco's idea of a big market' (Richman 1983).

While the American financial conglomerates of the 1970s were inept at developing PV, the situation worsened during the 1980s when they were taken apart. The American corporation experienced a deep crisis in the 1970s, to a large extent because of Japanese competition. In the 1980s, the strategy of unrelated diversification was delegitimized and a new conception of control was instituted, continuing the trend towards increasing financialization. The rise of shareholder value and a concomitant restructuring of the American corporate landscape made corporations reverse their previous move towards diversification (Useem 1996; Fligstein and Shin 2007). Cross-subsidization of diverse product lines was delegitimized and discontinued (Zuckerman 2000), causing a loss of *financial commitment* to PV technology. Deregulation and new debt instruments made it possible for corporate raiders to launch hostile takeovers or 'greenmail' companies for cash. The already vulnerable photovoltaics industry became a victim of the upheaval. In the 1980s, '[s]olar companies in the United States became pawns in the market for corporate control' (Jones and Bouamane 2012: 36).

In the 1980s, as the corporate landscape changed once again, large conglomerates came under pressure to divest and focus on their core competence. Exxon divested in 1982, signaling to investors that photovoltaics was a bad bet. General Electric divested from unrelated product lines to launch hostile takeovers. RCA became a target and divested. Standard Oil of Ohio and Phillips Petroleum divested under pressure from shareholders and corporate raiders, as did Arco in 1989, and its solar division was sold to the German company Siemens. Energy analyst Philip K. Verleger Jr. at Charles River Associates explained the move by saying that American firms were 'too tied up in short-term profits' to make the commitment necessary to make PV economically viable. As the *New York Times* summarized his argument: '[a] publically held company that invested heavily in solar technology would probably become the target of a corporate raider who would argue that shareholders' money would get quicker profits elsewhere' (Wald 1989).

Case Two: Japan

In the 1980s, when American PV firms were leaving the industry, Japanese firms built a new market for solar cells by integrating them with consumer electronics. When that market became saturated, they lobbied the Japanese government to create a new one in residential electricity generation (Kimura and Suzuki 2006). A rooftop solar program was launched in 1994 and further subsidies were added in 1997. These measures, coupled with foreign demand spurred by Germany's feed-in tariff law, passed in 2000, propelled the Japanese PV industry into a period of 22-fold growth between 1994 and 2003. During the first five years of the new millennium, almost half the world's solar cells were manufactured by Japanese firms, while the American share, standing at over 90 per cent in 1980, decreased to around 9 per cent (Jäger-Waldau 2006). Behind this rapid growth was a set of social forces and institutional arrangements uniquely conducive to long-range investments and incremental innovation.

POLITICAL ECONOMY

Modern Japan has been dominated by a conservative coalition of rural and urban elites, closely tied to a small yet pervasive state. In the postwar era, the ruling coalition was represented by the near-hegemonic Liberal Democratic Party (LDP), supported financially by big business and electorally by agricultural interests in a heavily gerrymandered countryside. Their core focus was industrial development. Initially, it had a military purpose, but was later pursued for its own sake. Organized labor has mostly been absent as a political force, but has had significant influence on the organization of work in large firms. Elites responded to the emergence of an organized labor movement with a combination of repression and cooptation, channeling discontent into vertical organization within enterprises to defuse horizontal class-based organization. An aristocracy of skilled workers were given a stake in the corporation, aligning their interests with management. Male blue-collar workers were given secure career paths and considerable autonomy. Issues of redistribution or environmentalist concerns were not political concerns except in extraordinary situations when outside groups forced them upon the establishment (Pempel 1982; Schreurs 2003).

POLITY

The single-minded focus on economic growth pursued by the state-business alliance showed not even minimal concern for environmental welfare. By the 1960s, it had turned Japan into the most polluted country on earth. Solar energy was put on the agenda partly as a response to a growing disaffection with this situation. Several environmental hazards caused death and deformities, sparking outrage and the growth of environmental activism. Unlike in the United States, the environmental movement encompassed various social classes (Reich 1984). One reason was that in Japan, the workers movement had effectively been removed from the political arena. Pollution became the dominant issue in the 1960s, attracting radicalized students and other opposition groups. By framing the issue as a direct threat to human health, caused by the ruling elites, the activists' definition fit other disparate opposition groups. Various small opposition parties, such as the communist party, the socialist party, and the clean government party incorporated environmental issues, aiding and organizing victims, and attacking the government.

Environmentalists had normally been excluded from the policymaking process, and had to act through the courts or the press. But in the late 1960s and 1970s, pollution became such a grievance that policymakers and bureaucrats had to pay attention. Unwilling to compromise with the overarching goal of economic growth, the preferred solution was the development of advanced environmental technology, such as solar cells. Once policymakers decided that environmental problems were a priority, state capacity allowed them to move quickly to implement changes – at least changes that were not in opposition to the general interests of big business.

Another period of crisis occurred in the early 1990s, when the ruling LDP party was challenged for the first time. Disaffection at the end of the bubble economy opened up a space for opposition movements. The opposition party won and enacted the Basic Environmental Law which included the promotion of environmental technology, laying the groundwork for the residential subsidy.

POLICY

The Japanese state played an active role in developing the industry, providing R & D subsidies, funding for demonstration projects, organizing cooperative research consortia, and ultimately creating a market for residential electricity generation. Industrial policy in the semiconductor sector also aided Japanese PV producers, which were originally involved in electronics, semiconductors and ceramics. State support for PV was more reliable in Japan than in the US, but financial support for R&D did not, apart from a slight exception in 1991, exceed that of the United States until 2001 (Knight 2011). Although the quantity of government support was lower in Japan, the quality was greater. Photovoltaics were developed within Japan's prestigious industrial Ministry of International Trade and Industry (MITI), in contrast with the United States, where it was handled erratically under the newly established and politically unstable Department of Energy.

The powers of MITI were born out of extraordinary historical circumstances. A post-war purge cleared away the military and the *zaibatsu* (family-owned conglomerates), allowing the economic bureaucracy, which was necessary for post-war reconstruction, to expand its powers. Pressure to liberalize the economy in the 1960s caused its methods of industrial restructuring to shift to 'administrative guidance' and the formation of research consortia. MITI's power derived not from its ability to dominate private industry but rather to work with and through it. The networked economy of Japan provided many entry points for industrial policy, enabling it to influence the market without having to go through the political channels of the LDP or the Diet. Samuels (1987: 260) describes a situation of constant negotiation, where the state rarely if ever attained its initial goals.

The state has not been very successful in achieving broad sectoral shifts, but where the state can intersect at the junctures of established industries and new industries, it has been very effective. The state could strategically upgrade sectors where industrial support authorization already exists, and 'foster hybrid industries through technological fusion where administrative boundaries and legislative authorization permit' (Calder 1995: 248). In the 1980s, mixed public-private institutions such as the Key Technology Center and the New Energy and Industrial Development Organization (NEDO) operated successfully with the private sector developing new industries, including PV.

Major efforts to develop photovoltaics began with the government's Sunshine Program in 1974, a MITI-led effort designed to promote alternative energy after the oil crisis. It consisted mostly of support for conventional energy, particularly coal, but included a small sum for solar energy.

The program was expanded after the second oil shock in 1979. The Alternative Energy Law was enacted in 1980, preceded by intense struggle between MITI and other ministries and with private industry (Samuels 1981). The inter-bureaucratic struggle was shaped by two contradictory goals set up by Prime Minister Ohira in 1979, promotion of alternative energy and 'financial reconstruction'. MITI wanted increased funding to achieve the first goal, while the Administrative Management Agency and the Ministry of Finance wanted to control spending to achieve the second.

MITI's opening bid would grant it extensive powers of industry, allowing officials to set legally binding targets for industry's conversion from oil to alternative energy (Samuels 1981: 152). The agency also proposed to create special accounts and taxes for MITI to finance the energy conversion strategy, and to form an Alternative Energy Public Energy Corporation over which MITI would gain full supervisory control. None of these were ultimately implemented as originally proposed, however. Industry opposed them on grounds that they encroached on the private sector (Samuels 1981: 153). The AMA and MOF opposed them on grounds of cost. Instead of a public policy corporation, a hybrid public-private form was chosen. From the private sector's perspective, it was a case of separating government funding from government control. The project is operated in conjunction with a number of private companies, including Toshiba, NEC, Mitsubishi, Sanyo, Sharp and Kyocera.

NEDO's program became focused on low-cost PV products, which had the most commercial potential (Newham 1986: 63). It sponsored a wide variety of projects through universities, research agencies, and private companies. The companies shared all results produced under NEDO sponsorship (Newham 1986: 64). The main concern in the mid-1980s was to scale the technology already used in gadgets for large-scale use.

A research consortium, PVTEC, was formed in 1990, consisting of 29 private manufacturers of PV cells, modules and systems. It created spillover effects among participants from various industries, including chemicals and textiles (Watanabe et al. 2002).

A second Sunshine Program was launched in 1993, coupled with a residential subsidy. The expanded role of PV in the 1990s was the result of intense lobbying from the PV firms, represented by the Japanese Solar Industry Association, and by climate change-conscious politicians within and outside the ruling Liberal Democratic Party (Kimura and Suzuki 2006). MITI opposed measures to reduce economic growth, making a massive expansion of solar energy and other low-carbon-technologies the default plan to reduce greenhouse gas emissions. The Japanese PV industry was set on a course of virtuous continuous expansion (Watanabe et al. 2002). The residential subsidy provided the long-term assured demand to set it in motion.

While the state was a necessary component in PV development, not only in PV but in other industries such as semiconductors and ceramics, it was not leading the effort. The big difference between the countries was in the organization of private enterprise. This difference, however, was largely caused by the way the Japanese state shaped the financial system after the war. It was specifically designed to encourage investment in productive instead of speculative activity, partly inspired by the economic theory of Joseph Schumpeter (Metzler 2013).

PRIVATE ENTERPRISE

In the 1970s, Japanese firms made inroads into industries related to photovoltaics, conquering almost half of the global semiconductor market and wiping out large parts of the American consumer electronics industry (Chandler et al. 2009). These firms viewed photovoltaics as a complementary investment to their existing capabilities, where they could plow some of their retained earnings (Kimura and Suzuki 2006). Japanese firms faced few of the constraints of their American counterparts, and kept on investing undisturbed by the turbulence of the American 1980s merger wave. Aggressive investment, even during downturns, was a defining feature of Japanese postwar capitalism. Levels of corporate investment exceeded those of any other industrial nation, giving Japanese firms 'the most impressive investment performance ever achieved in any peacetime, democratic, market economy' (Gerlach 1992: 253–254). It was especially pronounced in capital-intensive industries such as semiconductors and electronics, the parent industries of photovoltaics.

Japanese electronics firms' main competitive advantage was financial commitment, secured through close ties with banks (Flaherty and Itami 1984; Langlois and Steinmueller 1999). Banks provided firms with 'dedicated capital' available for 'long periods of time, without regard to short-term returns' (Calder 1995: 250). Although Japanese banks turned highly speculative in the 1980s, corporate finance was largely insulated from such pressures by blocs of stable shareholders (Goldstein 1997). Perhaps even more important than access to reliable credit was retained earnings, and Japanese managers' ability to exercise strategic control over them without regarding to shareholders' interests. Managers were freed from 'the restrictions of short-term perspectives' to set 'long-term goals' (Iwata 1992: 175). Large Japanese firms continued to cross-subsidize PV through sales in other lines of business, as US firms had done in the era of the M-form conglomerates in the 1970s, but their diversification strategies focused on related, rather than unrelated, diversification.

Due to the institutional arrangement of cross-shareholding, in which firms held each other's shares for the long term, Japan did not experience a 'shareholder revolution' as did the United States. Instead of managers being compelled to act like shareholders, shareholders in Japan were compelled to act like managers (Gerlach 1992: 227). Japanese photovoltaics producers were not subject to the 'market for corporate control'. Beyond protecting against hostile takeovers, cross-shareholding meant that Japanese managers were 'under less compulsion to sustain high quarterly profits than their US counterparts, and therefore freer to focus on long-term expansion of market share' (Okimoto 1989: 44).

Thirdly, and partly relatedly, a key strength of Japanese firms was the organizational integration of workers in the innovation process. American firms were segmented between white-collar and blue-collar workers (Lazonick 1993: 43). In Japan, blue-collar workers were integrated into the innovation process. Iwata (1992) argues that the elimination of shareholder control after the Asia-Pacific War turned the Japanese enterprise into a 'unified body of employees'. Lifetime employment turned the worker from a 'an external seller of his labor', to a 'corporatist who shares the responsibilities of management' (Iwata 1992: 176). At Kyocera, one of the top Japanese PV producers, workers were organized in self-managing teams known as 'amoebas'. According to Florida and Kenney (1990: 158–159), this organization was a mechanism for 'generating internal, self-imposed discipline, devolving manager responsibility to the shop floor, and motivating workers to work harder' thereby 'harnessing workers' knowledge and collective problem-solving capabilities for the enterprise'.

In sum, Japanese institutional arrangements – bank-financing, cross-shareholding, enterprise unions and lifetime employment – aligned the interests of financial capital, production capital, and labor in a manner that allowed them to maintain the social conditions of innovation. Consequently, Japanese firms drove American competitors out of the PV market and related markets. They also avoided the corporate upheaval afflicted their American rivals – a restructuring which to a large extent was caused by Japanese competition in the first place.

Conclusion

The framework developed in the theoretical section directed attention to the weaknesses of the American approach towards developing photovoltaics. By focusing almost exclusively on creating a future market for centralized energy generation, American firms missed the opportunity to develop the small off-grid and consumer electronics markets that were already available. There was an alternative path that was not taken, towards decentralized solar energy which would not have to compete with conventional sources. We know this because that is how the industry developed in Japan, where solar cells were applied mainly for off-grid use and consumer electronics, allowing the technology to mature gradually without much reliance on subsidies or record-level energy prices. The chapter demonstrates that the main reason this path was not taken in the United States was a disconnection between industry and finance. The entrepreneurs who had the deepest knowledge of the technology and the markets where it would be cost-effective lacked connections to the financial sphere. Consequentially, most of them succumbed to large financial conglomerates, which were inefficiently governed by arm's length relations from central headquarters at first and by even more distant financial markets later. This made entry possible for Japanese firms, whose institutional and financial arrangements insulated them from financial constraints and destructive conflicts between shareholders and managers, as well as providing greater integration of workers in the innovation process.

In Japan, technologically innovative PV firms had ample financing and were sheltered from the turbulence of financial markets. In the United States, the financial system was unwilling to finance small entrepreneurial firms, causing the industry to become concentrated among large corporations. This would not necessarily have impeded innovation, if not for the way financial markets influenced large corporations in this era, first by turning them into unwieldy and inefficient conglomerates in the 1960s and 1970s, and then by breaking them up in the takeover wave of the 1980s. The end result was a suboptimal outcome that arguably set back the American, and thereby global, solar energy industry for decades.

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CHAPTER 8

A postcolonial critique of the Base-of-the-Pyramid discourse

MARIJANE LUISTRO JONSSON, EMRE YILDIZ AND SOFIA ALTAFI

> *'What is benevolence towards the poor*
> *is transformed into knowledge that is applicable to the rich.'*
> Michel Foucault, 1975

Introduction

In recent years, there has been an increased interest in development and poverty issues in business academia. This is captured in the business literature by, among others, the Bottom/Base of the Pyramid (BoP) proposition. The BoP proposition, originally conceptualized by Prahalad and Hart (2002), suggests that there is a fortune to be made for multinational corporations (MNCs) if they start targeting the bottom of the economic pyramid; i.e., the four billion people in the world living on less than two dollars per day. The proposition thereby opened up the domain where MNCs can engage themselves with the poor, primarily by selling BoP-adapted consumer goods.

The original BoP proposition's basic idea of creating these so-called 'win-win' business models has emerged in practice: a significant number of MNCs have started to follow the key commandments of the proposition to effectively tap into the promised 'fortune.' Given its sizable impact on business theory and practice, critiques of this early BoP proposition highlighted its focus on consumerism, its tendency to romanticize the poor, and its overconfidence in market forces (e.g., Karnani 2006, 2007, 2009). In response to this, the BoP proposition evolved to embrace the co-creation of innovative business models aimed to increase the earning capacity of the poor by collaborating with non-profit actors, civil society, and local communities (e.g., London and Hart 2005, 2011; London and Anupindi 2011).

The main purpose of this chapter is to provide a critical reading of the collectivity of these three streams of work, viz., the original proposition, critiques levied against the proposition and the second iteration of the proposition that was developed to redress these criticisms. We employ the word 'collectivity' neither loosely nor arbitrarily. Our key argument is that the voices raised within business academia for and against the BoP proposition converge in a similar colonial outlook. In this regard, we share the same ambition with the extant stream of research that scrutinizes the BoP proposition (e.g., Arora and Romijn 2009) and other initiatives for poverty alleviation and development (see e.g., Weber 2002; Fernando 2006; Dichter and Harper 2007; Bateman 2010; Karim 2011).

While analyzing the three constituent bodies of BoP discourse, this chapter builds on a different yet complementary theoretical frame of reference vis-à-vis earlier critical work. Namely, we use postcolonial theory as our conceptual anchor to identify the colonial assumptions of BoP discourse. Guided largely by the foundational work of Said (1978), our aim is to question the ways with which the dominant discourse invents, depicts and directs the so-called BoP and the non-West 'poor'. To that end, this chapter is organized along the following themes of the discourse, showing (1) the BoP space is invented as an opportunity space by its major proponents, with representations of the 'poor' that are imbued with binary oppositions, and (2) prescriptions that consider the BoP an 'exploitable other' (i.e., the prescriptions have been disguised under the logic of 'win-win,' whereas most of the proposed solutions are indeed primarily serving Western interests while exploiting the people at the BoP). In this manner, we intend to show how the self-serving interests of MNCs and the Western hegemony, rather than an earnest commitment to alleviate poverty, are the dominant factors that have guided and governed the emergence and evolution of the BoP discourse.

In fine, this chapter aims at making a number of key contributions. First, we intend to show how familiar and accepted arguments in extant BoP literature amount to a homogenizing, reductionist and exploitative compendium of canon on non-Western peoples. More importantly, we will show that this canon is not a disinterested body of knowledge. Instead, it is used as a basis for rendering Western presence and action in non-Western geographies and towards non-Western people as a 'just' and 'noble' enterprise. Second, we focus not only on the first and second waves of BoP propositions as they developed and emerged in business academia, but also, and even more importantly, on the critiques levied against these propositions. Not only does this deepen our understanding of the BoP proposition as such, but it also defamiliarizes the reader with the current approaches that define the BoP literature on poverty alleviation. Furthermore, our critical approach to the BoP proposition from the postcolonial vantage point is instrumental in deciphering how the discourse's cultural, social, psychological and historical representations of the 'poor' are shaped by and for the interests of the West. This is very much in line with the project set forth by Prasad (2003: 32), who sees significant value in using postcolonial analysis to unveil the 'persistent imprint of colonialist ways of thinking and behaving' in different management disciplines, which can in turn provide 'a new orientation to current management practices as well as research.'

In keeping with the aims that we have set out for the chapter, we first provide the theoretical bases upon which the ensuing analysis will be constructed. This is followed by a section where we set the scene by presenting our methodological considerations, including motivating our choice of texts to analyse. Thereafter, we present and expound upon our critical treatise of the dominant BoP discourse. We end the paper with our concluding remarks.

Postcolonial theory

As an overarching theoretical framework and analytical tool, postcolonialism[1] problematizes Western representations of non-Western peoples and geographies, with a critical emphasis on the West's monolithic and power-laden creation of knowledge pertaining to the non-Western world. In essence, postcolonial theory 'seeks to critique and analyze the complex and multifaceted dynamics of modern Western colonialism' (Banerjee and Prasad 2008: 91) by pinpointing and problematizing 'the colonial encounter for people's lives both

1 To avoid unnecessary confusion, a semantic clarification is in order. As noted by Young (2001) and Prasad (2003), there are fine distinctions between the terms 'post-colonial,' 'postcolonial,' 'postcoloniality,' and 'postcolonialism.' Several scholars use the term *post-colonial* (with a hyphen) as a temporal expression referring to the formal end of colonization and what comes after, whereas they use the term *postcolonial* (without the hyphen) to refer to a way of thinking about colonialism and its apparatuses and consequences. Further, *postcoloniality* entails the more concrete aspects of economic, political and cultural conditions of postcolonial times. *Postcolonialism*, on the other hand, is an analytical framework used to criticize the conditions of postcoloniality.

in the West and the non-West' (Prasad 2003: 5).[2] The postcolonial implications of colonial encounters between the West and 'the Rest' have been extensively studied by different scholars, who share similar concerns over the textual representations of the non-West by and in the Western world.

Edward Said, Homi K. Bhabha, and Gayatri Chakravorty Spivak are often considered the 'holy trinity' of postcolonial thought. That said, however, the analytical nuances and differences among them ought not be overlooked (for a concise overview, see Özkazanc-Pan 2008). While acknowledging the importance of Spivak's focus on gender, race and the subaltern as different forms of space in which counterhegemonic discourses can be created, as well as the significance of Bhabha's psychoanalytic lens on and deconstructive approach to the dominant discourse(s), in this paper, we will zero in on the analytical perspective of Edward Said and the specific postcolonial theoretical lens introduced by him. Our choice for using the Saidian account of postcolonialism is primarily due to its direct applicability and close relevance to the specific discourse we intend to critique.

Postcolonial theory, developed by Said (1978) in his path-breaking book 'Orientalism,' systematically examines the power relations between the colonizer (West) and the colonized (Orient). Postcolonialism is thus developed in response to the essentialist assumptions of Orientalist logic and discourse that are applied in studying, managing, depicting, and explaining 'the Oriental'. In this manner, the theory problematizes several aspects of Orientalist discourse. First, Said argues that the Orient is 'a European invention' (1978: 1). Second, while appropriating its subject matter, Orientalist discourse almost always builds on binary oppositions (i.e., centre vs. periphery, civilized vs. savage, developed vs. undeveloped, masculine vs. feminine) wherein an innate ontological inferiority of the Orient vis-à-vis the Occident is posited. As a result, Orientalism depicts and represents the constructed Orient by emphasizing its 'eccentricity, backwardness, indifference, feminine penetrability, and supine malleability' (Said 1978: 206).

One of the key points emphasized in postcolonial theory is that the invention of the Orient is not an intellectual enterprise for its own sake, nor is it a genuine attempt to know and understand the other. By creating the belief that

2 Even though other variants of postmodernist/poststructuralist schools of thought have been criticized for being Eurocentric and relying on Western terms and modes of thought even while criticizing the very modernity that emerged therein, postcolonialism stands apart from these traditions, for it takes into account native and marginalized voices (Özkazanc-Pan 2008).

the Orient is a polar opposite and ontological inferior of the Occident and that the Oriental is a subject race that ought to be educated, civilized and subjugated, Orientalism justifies and legitimizes the ground for Western presence and colonialism in the Orient (Prasad 2003). Thus, Orientalism serves Western colonialism by crystallizing the inferior identity of a homogenous non-West and thereby rendering it a 'moral obligation' for the West to enter, civilize, improve, and help the people living there. In other words, postcolonialism explicitly maintains that the Western pursuit of knowledge is neither disinterested nor objective: academic and literary work on non-Western geographies and cultures conducted by those in the West always serves the West, allowing military, political and economic interventions in the East to be justified (Özkazanc-Pan 2008). As such, the production and dissemination of Orientalist knowledge established the moral grounds for Western presence in the non-West.

Another important aspect of postcolonialism is its sensitivity to the issues of cultural and economic domination: economically developed nations constantly set the standards and constitute the model against which others should be evaluated. As noted by Westwood (2006: 96), by dividing 'the world into modern, developed, industrialized and the pre-modern, under-developed and pre-industrial parts,' neo-colonialist discourse builds on a 'universalistic trajectory of development and salvation and constructs essentializing and exocitizing representations of the other' in order to vindicate the imposition and implementation of Western solutions and projects in non-Western worlds. This universalizing and homogenizing viewpoint of contemporary colonialist discourse has paved the way for perspectives that build on postcolonialism while problematizing the indiscriminate adoption and emulation of Western norms, standards and practices (e.g., Escobar 1995; Parekh 1997).

Postcolonial theory has been employed in critical management literature (e.g., sustainable development in Banerjee 2003; knowledge transfer in Mir et al. 2008; stakeholders in Parson 2008; culture in Fougère and Moulettes 2011) to expose neo-colonialism, the continuing hegemony of Western colonialism, and power relations between the dominating West and the non-West (e.g., international business in Westwood 2006; economic development in McKenna 2011; internal colonialism in Banerjee 2011; leadership in Nkomo 2011).

The BoP discourse

THE BOP PROPONENTS

The BoP concept was first conceptualized by C. K. Prahalad and Stuart Hart in an article published in 'Strategy+Business' in 2002, where they proposed that there is a fortune to be made by MNCs targeting the world's four billion impoverished people. This text has been described by Hart as the 'path-breaking article [that] provided the first articulation of how business could profitably serve the needs of the four billion 'poor' in the developing world' (www.stuartlhart.com 20 January 2011).

The initial article was followed by Prahalad's bestseller *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*, which first was published by Wharton School Publishing in 2005 and came out in a fifth anniversary edition in 2010. The book presents the suggested profitable 'win-win' BoP proposition, including letters from CEOs supporting the approach and cases of successful BoP engagements. It has been cited at least 5 555 times[3], translated into at least 12 languages, selected as one of the best books of the year 2004 by The Economist, Fast Company and Amazon.com, and praised by high-profile figures such as Bill Gates and Madeleine Albright. In short, no other BoP publication has received this type of positive attention.

The BoP proposition suggests that MNCs should collaborate with nongovernmental organizations (NGOs) and local entrepreneurs as business partners to target the vast, untapped, primarily rural markets in developing countries – the estimated four billion people in the world who live on less than 2 USD per day and comprise the so-called bottom/base of the economic pyramid. Through these 'win-win' deals, the well-being of the BoP, or the 'poor', is argued to be increased, while at the same time generating profits for the private sector.

Prahalad's article (co-authored with Hart) and his sequel book, which we analyze in the next section, gave rise to a number of studies in the management literature that linked the BoP proposition with business models, innovation, collaboration, and strategy (e.g., Hart and Christensen 2002; London and Hart 2004, 2005; Christensen et al. 2006; Kramer and Porter 2006; Anderson and Markides 2007; Hütte 2008; Kandachar and Halme 2008). This sudden surge

3 Based on citation in Google Scholar as of October 2016.

of studies pertaining to the then-novel concept of BoP can be viewed as the first wave of BoP literature.

In recent years, the focus of the BoP proposition has moved away from a consumption-oriented, fortune-finding, top-down approach, to a more inclusive, production-oriented, fortune-creating and bottom-up approach (e.g., London and Hart 2005, 2011; London et al. 2010). Acknowledging the modest success of the original iteration of BoP, this modified version of the proposition emphasizes the importance of collaboration among different sectors to enhance the link between profits and poverty alleviation (London and Anupindi 2011). Since Prahalad's death in 2010, Stuart Hart and Ted London have become established as the foremost figures in the second-wave BoP literature. Their book entitled *Next Generation Business Strategies for the Base of the Pyramid – New Approaches for Building Mutual Value*, published in 2011, revisits and redefines the BoP proposition, as well as sets a new agenda for translating the concept into practice. This is included in our analysis since it represents the evolving research frontiers and progression of the discourse, roughly a decade after its initial inception.

THE BOP CRITIQUES

The BoP proposition also stirred up heated debates and evoked critical voices, both within and outside of the management field. Among others, a recognized critic of the BoP is Aneel Karnani. He has authored a series of articles published in various mainstream management journals arguing that the BoP proposition is built on flawed assumptions about the 'poor', and that it underemphasises the critical role and responsibility of the state in poverty reduction work. The current analysis focuses on three of his more recent articles: 'Help, don't romanticise the poor' (2008, Business Strategy Review), 'Romanticising the poor' (2009, Stanford Social Innovation Review), and 'Failure of the libertarian approach to reducing poverty' (2010, Asian Business and Management).

SYNTHESIS

In the previous section, we presented an overview of selected articles and books that have been instrumental in shaping the BoP discourse. Penned both by proponents and opponents of the BoP concept, this body of scholarly works initially appears to contribute to a stimulating debate and to provide varying prescriptions for best practices to alleviate poverty. Despite their surface differences, however, these articles build on similar latent assumptions and support for the common agenda of global capitalism.

Amidst the exchange of opposing views, no one questioned the morality and history of MNCs profiting from the BoP. Due to its recent conceptualization, the BoP was treated as an emerging market opportunity, represented with little or no emphasis on these people's and nations' past experiences with being subjected to exploitation. Thus, an influential discourse was born out of the creation of the BoP Orient, which unfortunately continues to propagate colonial assumptions and its exploitative effects. After providing a brief account of our methodological approach, we will further analyze these relations by specifically examining the prescriptions presented in the BoP discourse.

Methodology

Alvesson and Kärreman (2000) differentiate two approaches in studying a discourse: as a study of the spoken and written text in its distinct social-action context, and as a study of how it discursively constructs and maintains a social reality. We take the latter approach as we seek to identify how the various literatures supporting and criticizing the BoP concept are instrumental in forming and articulating the prevailing world order, which is built on similar grounds as those of colonialism.

In our textual analysis, all co-authors have conducted deep readings of the different texts and iterated between the empirical settings and postcolonial theory. Throughout our analysis, we have leaned on Alvesson and Sköldberg's (2000) reflexive approach, taking care to remain cognizant and vigilant of the political, ideological and ethical nature and implications of our research.

Critical analysis of the BoP discourse

THE INVENTION AND REPRESENTATION OF THE BOP

> The Orient is itself a constituted entity, and (…) the notion that there are geographical spaces with indigenous, radically 'different' inhabitants who can be defined on the basis of some religion, culture or racial essence proper to that space is (...) a highly debatable idea (Said 1978: 322).

Before digging into our critical treatise of the prescriptions developed and criticized by BoP discourse, it is important to briefly touch upon how the BoP space is invented and represented by this discourse. In terms of invention, the discourse adopts a generic and homogenizing tone. A starting point and central assumption of the BoP proposition is the potential size of the BoP market, estimated at four billion people in the world who live on less than two dollars per day.[4] Even though estimations vary somewhat (for a critique, see Karnani 2007), according to Prahalad (2010), the BoP nevertheless represents 'a *large number*, and (thus one that is) *worthy of our attention*' (Prahalad, 2010:xxvii-xxviii, emphasis added). Thus, since it is a 'multitrillion-dollar market' in which 'the bulk of the world's population growth' occurs, the BoP is worthy of 'our' attention (Prahalad and Hart 2002). To put it differently, the BoP attains significance only after one realizes the aggregate number of people living there, and the extent of the business opportunities therein. Apart from this collectivity that bestows him/her with economic significance, the uniqueness and individuality of each person living at the BoP is nullified and rendered unimportant.

Initially, it may appear that London and Hart do not indulge in the widespread tendency towards homogenizing BoP populations, asserting instead that the BoP is heterogeneous in numerous dimensions, through the following validation:

> (I)n the WRI/IFC report, the BoP is segmented into $500 PPP[5] income increments that are shown to have markedly different characteristics across regions, countries and industry sectors (London and Hart 2011: 7).

Although their acknowledgement that any nuanced differences exist in the BoP population ought to be welcomed, the differences they concede are still based on income differentiation, a criterion which can lead to faulty conclusions. Applying these types of quantitative, purportedly objective measures can result in a lack of reflectivity. Explicitly acknowledging income-based differences does not wholly eliminate the risk of subtle, implicit homogenizing tendencies, specifically when it comes to heterogeneity along dimensions

4 Another commonly used definition of the BoP are the 4 billion people with incomes below USD 3 000 in local purchasing power, rendering a per day income in current USD of less than USD 3.35 in Brazil, USD 2.11 in China, USD 1.89 in Ghana and USD 1.56 in India. In this BoP definition, these people together are estimated to constitute a USD 5 trillion global consumer market (Hammond et al. 2007).

5 Purchasing Power Parity

other than daily income. The diversity and heterogeneity of BoP populations are discarded and subsumed under pre-existing Western codes and categories (Westwood 2006), which in this case are 'regions, countries and industry sectors.'

By focusing entirely on its collectivity, the BoP is conceptualized as a homogeneous entity. Cultural differences and heterogeneities among these four billion people are often regarded as a 'challenge' (Prahalad 2010: 51). Thus, heterogeneity of culture and language in the BoP is depicted as a hurdle that should be overcome in order to ensure successful conveyance of 'our' ideas and solutions across geographies. Prahalad and Hart further claim that the opportunity presented by the collective economic worth of the 'poor' is not the only factor that should motivate Western MNCs:

> We have seen how the disenfranchised in Tier 4 can disrupt the way of life and safety of the rich in Tier 1 – poverty breeds discontent and extremism. Although complete income equality is an ideological pipe dream, the use of commercial development to bring people out of poverty and give them the chance for a better life is critical to the stability and health of the global economy and the continued success of Western MNCs (Prahalad and Hart 2002: 4).

In other words, in addition to offering new opportunities for MNCs, the BoP constitutes a problem that needs to be taken care of since it poses a threat to 'our' safety and way of life.

Further, the BoP is depicted as a group comprising passive people with low self-esteem stemming from their 'ontological inferiority' vis-à-vis the West. For instance, in their book *Next Generation Business Strategies for the Base of the Pyramid*, London and Hart (2011) characterize the passivity of BoP populations as an opportunity, one that is waiting to be discovered and served by observant and nimble business actors who have the ability to achieve legitimacy and recognition if they reach a global scale.

> (M)any of these first-generation BoP ventures have yet to achieve substantial scale. A number have failed, others remain local or regional in character. (…) Serving the BoP (…) involves more than simply providing low-cost products and extended distribution reach to a hitherto untapped market – one that is passively waiting to be discovered by observant entrepreneurs and business leaders (London and Hart 2011: 3).

In line with the above, Prahalad posits that the dearth of 'self-esteem' among the 'poor' is a significant causative factor of their impoverished state. The MNCs, according to Prahalad, are not only able to provide BoP consumers with products and services at affordable prices, but can also help:

> [BoP consumers] get recognition, respect, and fair treatment. Building self-esteem and entrepreneurial drive at the BoP is probably the most enduring contribution that the private sector can make (Prahalad 2010: xvii).

The above remarks implies that people at the BoP, by default, have low self-esteem and lack pride, and assumes away the structural, institutional and historical causes of poverty. Further, unless 'we' do something about it, there is no reason to believe that men and women at the BoP already possess or will be able to develop confidence or self-esteem. The discourse leaves the impression that MNCs can grant 'the poor' with 'integrity' they would otherwise lack, which makes it a just and noble undertaking for the West to penetrate and serve the BoP. This is very much in line with the rhetoric of the imperialist 'civilizing mission', within which the relationship between so-called 'civilized' and 'uncivilized' people is predicated upon the former's self-proclaimed sense of duty to help the latter (Said 1993).

While proponents of the BoP concept positioned BoP populations as potential market players, critiques of the concept began to voice their skepticism that BoP populations could ever be resourceful entrepreneurs and pragmatic consumers. In a series of articles, Karnani creates an alternate account of the BoP, depicting these populations as ignorant individuals with miserable lives and bleak futures and further positing that these inherent shortcomings are in large part to blame for their poverty.

A survey of research on the consumption choices made by 'the poor' showed that they spend a 'surprisingly large' fraction of their total income on alcohol, tobacco and entertainment (be it televisions, weddings or festivals).

> (…) But, it is problematic that 'the poor' do not spend enough on their own nutrition, health and education. In spite of being poor, they could invest more in their own future because they 'could easily save more without getting less nutrition by spending less on alcohol, tobacco, and food items such as sugar, spice and tea', according to the research. (…) The rich also often make choices not in their self-interest, but the consequences are not severe in their case. Selling to 'the poor' can, in fact, result in reducing their welfare (Karnani 2008: 50).

> Given their bleak lives, it is understandable why they spend so much on alcohol and tobacco. These addictive substances often enter lives as analgesics from extreme labor. In addition, poor people often encounter stressors – including hunger, pollution, crowding and violence – that lead them to act in ways that may alleviate suffering in the short term, but hinder economic prosperity in the long-term. Even if such behavior is understandable, that does not reduce its negative consequences (Karnani 2010: 10).

> The poor, of course, have the right to consume, and even abuse, alcohol. However, it is not in their self-interest to do so, at least not at the levels that many drink (Karnani 2010: 11).

In this evaluation of the self-interest of BoP populations, Karnani assumes that if an individual quits smoking/drinking and/or stops wasting his/her money on 'distracting' entertainment, s/he could easily climb out of the poverty trap. However, in formulating this alternate account of the BoP mindset, Karnani falls back on many of the same colonial assumptions employed by BoP proponents, rather remarkably positing an even more permanent and profound ontological inferiority of the 'poor'. This is evidenced by his attribution of Western behaviors and consumption standards to BoP populations, devoid of historical context and heedless of systemically asymmetric power relations. Thus, according to this account, 'the poor' are impoverished and inferior because they do not behave in the same manner as do people in affluent societies, thereby validating and more deeply inscribing the binary divide between 'us' and 'them,' 'rich' and 'poor.' Furthermore, Karnani does not find it necessary to address the factors that have led to 'the poor' being poor and the rich being rich; he takes it for granted that the state of being either rich or poor is an exogenous given. Likewise, colonial discourse is predicated upon the assumption that 'the Orient' and 'the Occident' are ontological binaries, which therefore 'do not participate in the same humanness' (Prasad 2003: 11).

Further privileging Western consumption standards, Karnani categorizes cultural and traditional practices such as festivals and ceremonies as nothing more than mere distractions and unnecessary expenses; their cultural value is afforded no significance in his analysis:

> The world's poorest people also spend a surprisingly large part of their budgets on ceremonies and festivals – which, in the absence of television and movies, are

> often the best distractions available. In Udaipur, India, for example, more than 99 per cent of extremely poor people – that is people living on less than $1 per day – had spent money on a wedding, funeral, or a religious festival in the previous year (Karnani 2009: 41).

The total omission of cultural reference points is equally in evidence when Prahalad and Hart (2002) provide an example of how Western MNCs can benefit from 'useful' principles and knowledge residing at the BoP. Specifically, they note that:

> Being respectful of traditions but willing to analyze them scientifically can lead to new knowledge. The Body Shop's creative CEO, Ms Roddick, built a business predicated on understanding the basis for local rituals and practices. For example, she observed that some African women use slices of pineapple to cleanse their skin. On the surface, this practice appears to be a meaningless ritual [sic]. However, research showed active ingredients in pineapple that cleared away dead skin cells better than chemical formulations (pp. 12–13).

Could there be a more direct and explicit endorsement of the commoditization of local rituals? What's more, the description of a local tradition as a 'meaningless ritual' is in itself an oxymoron, given that a ritual, by its very definition, is imbued with cultural meaning by those practicing it. According to Prahalad and Hart, the practices of BoP populations are worthy of serious consideration – as long as they promise to confer some kind of economic value, while cultural value is given no attention. Until they are scrutinized through the lens of 'our' methods of 'scientific' inquiry and prove to possess of any kind of value for MNCs, local practices at the BoP are 'meaningless.'

These arguments from both 'camps' of the discourse mirror Ferrero's words: 'the productive work of a civilized man is regular and methodological, (whereas) the sport (or rituals) of savages is irregular and intermittent' (Ferrero, cited in Frenkel and Shenhav 2006). For Prahalad and Hart, the 'senseless' cultural rituals of 'the other' can be rendered meaningful only if they prove to be useful and (economically) valuable according to 'our' scientific methods. As far as Karnani is concerned, the cultural significance and social function of local ceremonies are irrelevant, which enables him to conclude that they are mere 'distractions' that could easily be substituted with television and/or movies. Even more significantly, the above excerpts implicitly suggest that the power to grant meaning to and make sense of a local ritual or practice lies within our/Western frame of analysis, practitioners of which have taken on the self-proclaimed role of deciding what should be perceived as meaningful and relevant. In doing so, he formalizes, canonizes and specifies what can and cannot be done, which is one characteristic of colonialism (Prasad 2003).

In a similar vein, the second wave of the BoP literature continues to depict the ontological inferiority of BoP populations in their status as outsiders vis-à-vis the formal, global, capitalist economy. London and Hart view the BoP as 'the population of the world that is generally excluded from the current system of global capitalism' (*ibid:* 8). This statement assumes that the BoP is a priori outside the global conjuncture and thereby explicitly introduces a binary opposition: us/current global system vs. them/outcast BoP populations. This can further be seen in descriptions of the characteristics of the BoP.

> The key point is that the BoP segment has the following characteristics: is heterogeneous across multiple dimensions; includes the portion of the world's population with the least amount of income; contains local enterprises that generally are not well-integrated with formal capitalist economy; lives primarily in the informal economy; and constitutes the majority of humanity (London and Hart 2011: 9).

Among others, these statements exemplify the view that the formal economy is seen as the normative core from which the local and informal is excluded; furthermore, the local does not deserve a space of its own but can be represented only in relation to the global. The local is viewed as a passive entity, as opposed to the formal capitalist economy that provides the resources and makes things happen. While remaining on the outside, the BoP is nonetheless depicted as an opportunity (or a threat) that can be exploited and controlled by MNCs and used to benefit the West. This reflects Prasad's (2003) observation that when fleshing out an ontologically inferior 'other' in need of the 'helping and civilizing' hand of the West, Orientalist discourse succeeds in presenting colonialism almost as a moral obligation (Prasad 2003):

> The terrain is new, yet many of its features are familiar. With the right framing in place, the real opportunity space begins to unfold in front of us. We can create a fortune with the BoP, and perhaps, in the process, move all of us toward a more inclusive and sustainable future (London and Hart 2011: 231).

PRESCRIPTIONS TO THE BOP

> What is required of the Oriental expert is no longer simply 'understanding'; now the Orient must be made to perform, its power must be enlisted on the side of 'our' values, civilization, interests, goals. Knowledge of the Orient is directly translated into activity, and the results give rise to new currents of thought and action in the Orient (Said 1978: 238).

A recurring line of argument in Prahalad's bestselling book is its self-proclaimed pragmatic approach to poverty alleviation. Early on, he declares:

> (T)his book is concerned about what works. This is not a debate about who is right. I am even less concerned about what might go wrong. Plenty can and has. I am focused on the potential for learning from the few experiments that are going right (Prahalad 2010: xiv).

Within the pragmatic and moral framework set forth here, he implicitly claims that culture and politics are irrelevant, redundant and even destructive. Prahalad's analysis pays little, if any, attention to context, structures and power dimensions, thus treating the present state of the world as a given. It is within this geographical and historical vacuum that the four billion impoverished people of the world, together with the global private sector, are being assessed, and upon which potential solutions to global poverty are predicated. While the BoP discourse encourages the impoverished individual to change and 'improve,' it deliberately chooses to remain moot when it comes to the problematic and unjust traits of the surrounding global structures and systems, nor does it address the possible role(s) of these systems in any of the current inequalities. To the contrary, global – i.e., Western-imposed – structures are seen as the panacea for poverty alleviation, with the primary task of converting the BoP market 'from unorganized, inefficient local monopolies (for example, local moneylenders, local medics) to an organized and efficient private sector' (Prahalad 2010: 11).

Local social and economic structures, on the other hand, are depicted as the root cause of many problems and the major drivers and reproducers of systematic inequalities, unfair resource allocation and poverty:

> [The poor] are prisoners of local monopolies, including local moneylenders. They have no recourse to law. The local landlords can and do enforce their will on the local population (Prahalad 2010: xxviii).

Prahalad's book is filled with examples similar to the above. For example, he contends that the Mandi commission agents[6] are 'extremely wealthy' as a result of 'the lack of professional competition combined with the communal stranglehold on rural trading' (Prahalad 2010: 280); 'information asymmetry (...) allowed local moneylenders to have sway over the poor farmers; or buyers [to] have advantage over fishermen who had no idea of what the prices were' (Prahalad 2010: 22). However, through the 'democratization of commerce,' the poor female entrepreneur 'does not operate as an extralegal entity. She is bound to the national and global system and is less beholden to the local system of moneylenders and slum lords' (Prahalad 2010: 95). Thus, according to the discourse, BoP populations could benefit from the imposition of 'better' structures, a process for which the helping hands of Western MNCs are needed. While local elites are demonized and accused of exploitation and greed, MNCs and their shareholders and managers, together with the global economic system in which they exist, are represented as saviors and treated as guarantors of the Western virtues of transparency, professionalism, and accountability.

In this discourse, wherein the West and MNCs are portrayed as the saviors, the key ambition is to develop a market at the BoP, which involves creating the capacity to consume, coming up with new products and services, and making 'significant investments in educating customers on the appropriate use and the benefits of specific products and services' (Prahalad 2010: 65). Convincing MNCs to pursue this strategy should not be difficult, as '(t)he case for growth opportunity in the BoP markets is easy to make' (Prahalad 2010: 46). Put differently, as Western markets become highly competitive and saturated, MNCs can continue their growth by exploiting BoP populations and easing them into the habit of consumption. However, neither Prahalad nor his adherents explain at length how consuming more of 'our' products would foster self-esteem and self-respect among BoP populations, which is argued to be lacking. Instead, the usual rhetoric of the 'civilizing mission' takes precedence once again. The frequently cited case study of Hindustan Unilever (referred to as HLL below), the Indian subsidiary of the British-Dutch MNC, is a telling example:

6 Mandi commission agents are brokers who buy and sell produce between the companies and farmers in the mandi system (i.e. agricultural markets). Most of these commission agents, distinct from the farmers, belong to a close-knit community who often collude on trading practices favoring them and not the farmers.

> Not surprisingly, in BoP markets, education is a prerequisite to market development. (…) However, the problem (for HLL) was how to educate people on the need for washing hands with soap and to convey the causality between 'clean-looking but unsafe hands' and stomach disorders. HLL decided to approach village schools and educate children on the cause of disease and how to prevent it. (…) The children often became the most educated in the family on hygiene and, therefore, began educating their parents. The children became the activists and the advocates of good and healthy practices at home and HLL reaped new profits (Prahalad 2010: 65).

Another central theme of the discourse, particularly in the second wave of the BoP literature that will be discussed below, is increasing entrepreneurial drive among 'the poor'. In other words, BoP proponents are not satisfied with co-opting 'the poor' into the market as consumers; they also want to empower BoP populations through entrepreneurship, production and value creation. More specifically, the ambition is to create an 'appropriate ecosystem' in which 'a large network of micro entrepreneurs' is advised to interact with large/multinational firms (Prahalad 2010: 36). Furthermore, Prahalad (2010) rightfully sees significant value in granting impoverished people greater access to information (since local moneylenders create and exploit manipulative information asymmetries), credit (since organized microfinance institutions and banks are inherently better than local moneylenders), and regional/national markets (which are otherwise inaccessible unless micro-entrepreneurs are systematically organized and connected) so that commerce can be 'democratized.' The 'poor' can exercise 'personal choice' to become consumers and/or entrepreneurs, establish themselves as active participants in the global system, and, as a result, will be able to attain self-esteem and dignity. Implicit, yet important, in this prescription, however, is that the terms and scope of this increased access are all defined and determined by the West, which liberates and introduces 'order.' There is an evident business logic in creating an armada of small and unique production facilities tightly connected to an MNC hub. With a pool of potential suppliers to choose from, MNCs can increase supply-chain control, reduce risk, and fill institutional voids while improving their reputations. In other words, by exploiting 'the poor' through entrepreneurship, the extraction of resources from the BoP to the West can continue, but this time in a systematic and, more importantly, legitimate manner.

The critiques of the BoP concept also prescribe measures that can lead to the exploitation of the BoP population. Karnani's conceptualization of the BoP as helpless children has led him to prescribe an increased role for governments, in order to protect BoP populations from corporations, demonstrating a paternalistic approach that aligns with his infantilizing view of BoP populations. He argues that the romanticized view of 'the poor' does not help them, but rather harms them, because it results in too little emphasis on legal, regulatory and social mechanisms to protect impoverished people. It also overemphasizes microcredit, while under-emphasizing the need to foster modern enterprises that would provide employment opportunities (Karnani 2009). Although he highlights the critical role and responsibility of the state in poverty reduction efforts, Karnani also depicts BoP governments as inefficient machineries, or helpless and corrupt infants in themselves.

> Governments have the responsibility to guard their most vulnerable citizens from unsavory practices. Yet governments in all countries have problems of regulating markets. This is all the more true in developing countries with corrupt government that are in cahoots with firms. And even when governments in poor countries have good intentions, they often lack the resources and competence to design and administer appropriated regulations. Other mechanisms for protecting consumers are likewise very weak in developing countries, and even more so with regard to poor people (Karnani 2009: 42).

By infantilizing BoP governments, Karnani resorts to a co-optation to global governance, positing them as local Leviathans that will serve as intermediary mechanisms and client regimes for the exploitative policies of supra-national organizations like the IMF and World Bank. This subtle co-optation is captured by Jack et al. (2011), who argues,

> the nation state is a primary agent for the 'legitimate' exercise of violence against indigenous communities under conditions of necrocapitalism and internal colonialism. By curtailing the rights and notions of sovereignty for indigenous communities, either through legal or military means, national governments continue to play a vital role in a transnational political economy (Jack et al. 2011: 288).

An illustrative example of this co-opting tendency can be seen in how Karnani regards local farming practices as inferior to global technology, citing evidences from studies funded by the foundations that are established by well-known MNCs:

> Banerjee and Duflo (2006:165) argue that the poor have a 'reluctance to psychologically commit themselves to the project of making as they can.' In a study of farmers in Kenya, Duflo, et al. (2006) find that few farmers use fertilizers, even after the benefits – an average return on investment of over 100 per cent – have been demonstrated to them. Not many Ghanaian farmers cultivate pineapples, which would achieve returns of 250–300 per cent (The Economist, 2007a). This is perhaps understandable: the poor face such bleak circumstances that they come to believe the future is hopeless (Karnani, 2010: 12).

Once again, Karnani delimits the problem, as well as possible reasons to the farmers' behavior to a Western frame of reference. There are numerous other viable reasons for choosing not to use fertilizers or deciding not to switch to a new crop, none of which Karnani bothers to consider. For Karnani, therefore, whatever decisions the 'poor' make in the present and/or whichever vision the 'poor' have for the future can be attributed to him/her being 'poor'. By assuming that the failure to adopt expected practices or make 'optimal' economic decisions is a reflection of, and will result in, an envisaged hopeless and bleak future, Karnani hijacks the voice and agency of 'the poor', as well as their vision and future.

Therefore, despite Karnani's critique of market forces and emphasis on state intervention, he ultimately promotes an alignment to the global market and an admission of the superiority of market systems. In the process, the characteristics of the BoP are 'normalized' by employing Western countries and the programs of their governments as benchmarks, using standards created by supra-national institutions:

> One researcher calculates the public expenditure on education as a percentage of GNP for developed countries to be 5.46 per cent in 1980 and 5.54 per cent in 1997; the comparable numbers for developing countries are 3.99 per cent and 3.92 per cent. World Bank data in 2004 indicated public education expenditure to be 5.6 per cent of GDP for developed countries and 4.1 per cent for developing countries. Similarly, public health expenditure accounted for 6.7 per cent of GDP in 2004 in high-income countries compared to 1.3 per cent in low-income countries. Governments in developing countries need to play a larger role in education and public health (Karnani 2008: 52).

Similarly, the second-wave BoP literature engages in co-optation, championing BoP business structures that are:

> […] both global and local (both bottom-up and top-down) at the same time […] to source capital and technology, while also paying attention to local needs and challenges (London and Hart 2011: 14).

London and Hart's book (2011) offers toolkits, roadmaps and models aiming to guide MNCs and entrepreneurs, abounding with concepts such as 'Seven key principles for creating a fortune with the base of the pyramid' (p. 21); 'Five key factors that make the BoP markets unique' (*ibid:* 47); 'Four toolkits for BoP business models innovations' (*ibid:* 53); 'The green leap or great convergence model' (*ibid:* 85); 'Three phases of embedded innovation' (*ibid:* 118); 'Four general stages of strategic design' (*ibid:* 176); 'Two models of venture creation' (*ibid:* 198), and so on. These prescriptions are clearly efforts to empower MNCs and entrepreneurs and co-opting to the global market, using a simplified management approach to development. While the BoP population is posited to remain passive, the BoP concept was invented and reinvented by its proponents, the same proponents who also created and monopolized knowledge about the BoP through their normative BoP-for-managers models. What results is an alternative Third World, made up of communities that can only come to be known through theories and intervened upon from the outside (Mitchell, cited in Escobar 1995), without any real attempt to understand them and let them express themselves.

Thus, both proponents and opponents of the BoP concept envision a singular process for modernization and economic prosperity, developed by and in the West and then exported to other societies. The ethnocentrism and emphasis on universality in the prescriptions of both camps are clearly evident throughout, building on a binary opposition between the inherently inferior BoP and the omnipotent global system. Such attributes include framing the 'Orient' as:

> being (an) 'inferior, exotic, degenerative culture that requires acculturation and modernization', and also the supposedly 'objective' differences between the westerner and the 'other', which accord the former the right to rule and ultimately civilize and even represent the latter (Frenkel and Shenav 2006: 857).

In totality, the discourse creates an apparatus that serves the powerful actors in the global market, legitimizing their actions to exploit, control and dominate the BoP. It can be seen as an agent of the new 'Empire' ushering imperialism or the 'radically altered forms of capitalism's accelerated penetration into the non-capitalistic world' (Parry, cited in Westwood 2006).

Conclusion

Our post-colonial critique of the BoP discourse, which is novel in that it also focuses on critiques of the BoP concept, has led us to a number of significant conclusions. Through an analysis of the BoP's invention, including its constituent representations and prescriptions, we show that the discourse serves as a constructed space and apparatus that allows the dominant actors in the global market to canonize knowledge about an invented 'Other' and legitimize an exploitative agenda to maintain their dominance. The first wave of BoP proponents created an invented space for opportunities and threats, characterized by colonial assumptions that rationalize culture, emphasize income, and value size and scale. In defending this domain from its critiques, the space was reinvented by the second wave of BoP proponents, again based on many of the same colonial assumptions emphasizing passivity and homogenizing the collective in terms of income and market characteristics. This space was made by and for the West, particularly MNCs. Therefore, taken together, the prescriptions of the proponents and the critiques underscore the omnipotence of the global economy, suggested unsurprisingly by business scholars and gurus, in an effort to maintain and legitimize the dominant position of those they serve and from whom they create knowledge, and giving them power to continue to exploit what they have created.

Aforementioned points withstanding, several delimitations of this chapter merit mention. First, in the present investigation, we primarily focus on the typical traits of the mainstream, or dominant, BoP discourse. We acknowledge the magnitude as well as the multidisciplinary nature of the literature that explicitly refers to the BoP concept, but choose to put emphasis on some of the most central and vocal texts within the business literature. Second, the BoP proposition can be, and to a certain degree has already been, criticized from postmodernist and post-developmentalist horizons at large. We welcome and fully concur with critical treatise from such perspectives, which to a large extent are interrelated and closely connected to the form of postcolonial analysis we undertake presently. However, instead of providing a critique of the neo-liberal economic system as such, we focus on the issues pertaining to cultural domination, othering and representation. Hence, we will leave general post-modernist and post-developmentalist accounts outside the immediate scope of the present examination.

In fine, this post-colonial critique aiming to defamiliarize the readers, offers an alternative analysis that reveals how conflicting dialogues between proponents and critiques in a discourse can actually work towards fortifying the same ideologies and propagate exploitative colonial agendas. Karnani might have appeared to have criticized Prahalad and Hart by forcefully presenting opposing representation and prescriptions, but a closer look reveals that beyond those harsh words and opposing views lie similar colonial assumptions that aim to legitimize the status quo and the actions necessary to maintain this invented space of the BoP. Therefore, what we undertake in this chapter is an important task of reading and reflecting on the BoP through a post-colonial lens, one that defamiliarizes readers and presents them with the intellectual pitfalls that such a discourse can bring with it. We do not suggest alternative courses of action on how best to effect poverty alleviation, because the problem of poverty is often compounded by the multitude of commonly advanced prescriptions. What we offer is a different perspective and a unique analytical approach that hopefully can lead to more fruitful discourse in addressing the real issues surrounding poverty.

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CHAPTER 9

Sustainable business in a stakeholder society

– a relational leadership approach

INGALILL HOLMBERG AND PERNILLA PETRELIUS KARLBERG

Introduction

In the past few years, the quest for responsible and sustainable business has emerged as a major theme in academic and practical management discourse. The increasingly intensive debate on ethical and socially responsible business initiatives and the quest for globally responsible leadership (cf. The Globally Responsible Leadership Initiative and United Nations Global Compact) have put contemporary business models and current leadership praxis under severe public scrutiny.

Increased transparency, political calls for sustainable development, and higher expectations regarding top management's involvement and actions are seemingly changing the business climate (Boli 2006; Power 2009; Einwiller 2010; Freedman and Stagliano 2010). Contemporary business models and current leadership practices are criticized for being obsolete (Uhl-Bienl 2012; 2006; Sinclair 2007) and top management′s readiness and willingness to take action has been repeatedly questioned. Simultaneously operating and leading in a global and interconnected world (e.g., in a stakeholder society) has been described as navigating the firm through uneven and sometimes murky waters (Maak and Pless 2006: 99).

In this chapter, we will address the issue of sustainability in a stakeholder society by presenting and discussing an ongoing transformation process in a global telecom company. The company is situated in a Swedish business context, and having been one of the key players in the telecom sector for decades, the symbolic value of the company is high. The focus is on the interplay between leadership and different stakeholders in restoring and positioning the company as responsible and sustainable. The purpose of the study is to develop theoretical concepts in order to better understand the role of leadership in sustainable business.

More specifically, we will draw on two theoretical streams of research, namely, institutional theory prescribing how organizations navigate in a stakeholder society (i.e., strategies for dealing with competing demands) and the responsible leadership discourse addressing trust and trust-building in multifaceted contexts. The main contribution of the chapter falls within the leadership field, but there is also a contribution to institutional research focusing on competing demands and stakeholder pressure.

The outline of the chapter is the following: in the next section, we discuss the studied topic and the theoretical perspectives used in the analysis. We then describe the method of the study and present the case of the global telecom company. The case description depicts an ongoing process and thus follows a chronological order. In the next section, we present the analysis and discuss our findings. The paper ends with some concluding remarks.

CORPORATE RESPONSIBILITY AND SUSTAINABLE BUSINESS

Research on sustainable development and sustainable business is vast and growing. The same is true for corporate responsibility and responsible behaviour (for an overview see Dobers 2010; Egels-Zandén and Kallifatides 2010). Sustainability and corporate responsibility practises are often described as multifaceted and complex phenomena, even paradoxical (e.g., Lewis and Kelemen 2002; Egels-Zandén and Kallifatides 2010). Acknowledging the complexity of the studied phenomena and the multitude of different research strands and perspectives, this study will focus on the relationship between institutional practices, leadership and sustainability. The choice of theoretical perspectives is based on the assumptions that global companies operate in stakeholder societies (i.e., contexts of competing demands) and that responsible leadership is a tentative driver for sustainable business (cf. Oliver 1991 for discussion on strategic responses to institutional pressure and agency). By drawing on institutional theory and the responsible leadership discourse, we will outline two different (but possibly interrelated) practices for dealing with complexity, trust and competing demands. Adhering to the social constructionist view, we treat sustainability as an empirical construct which means that individuals'/organizations' understanding of sustainability is created in interactions with others (i.e., stakeholders).

TRUST BUILDING IN MULTIFACETED CONTEXTS – A RELATIONAL LEADERSHIP APPROACH

Despite different views on what constitutes sustainable business, scholars and practitioners alike seem to agree on the notion that trust and trust-building processes are key concepts in developing sustainable business practices (cf. Morsing and Schultz 2006). Thus, operating in a stakeholder society offers the ability to build and accumulate trust among customers, markets, investors, owners, public opinion and markets (Engwall and Sahlin 2007).

In the responsible leadership discourse, trust-building relations in a global and interconnected world is essentially conceptualized as managing a complex and multifaceted context through a relational leadership approach based on inclusion, collaboration and co-operation with different stakeholder groups (Freeman 1984; Maak and Pless 2006). Consequently, the notion of aligning and alignment is crucial and managers′ prime task is defined as engaging and cultivating sustainable and trusting relationships with different stakeholders within and outside the organization, and to coordinate their actions to achieve common objectives (e.g., triple bottom line), business sustainability and legitimacy, and ultimately to help in realizing an ethically sound and shared business vision (cf. Maak and Pless 2006).

In this rather functional understanding of stakeholder society and stakeholder relationships, leadership is challenged when there is a gap between legitimating structures/symbols and organizational practises (*ibid.*). When internal ideas of ethical behaviour and sustainable business do not align with those of stakeholders, and more specifically with the voice of the media and public opinion, the demand for new leadership is usually strong and persistent (Hayward 2004, Rindova 2006, Gilpin 2010).

In recent years' stakeholder theory has developed a focus on the importance of engaging stakeholders in long-term value-creation processes, implying that stakeholders cannot be managed by companies. A process view of value creation including several stakeholders puts modes of interaction, dialogue and involvement centre-stage (Morsing and Schultz 2006). Based on Grunig and Hunt′s (1984) characteristics of models of public relations and the lenses of sense-making and sense-giving (Gioa and Chittipeddi 1991; Weick

1995), Morsing and Schultz elaborate on three types of communication strategies with regard to corporate social responsibility and sustainability issues: the stakeholder information strategy, the stakeholder response strategy, and the stakeholder involvement strategy. While the stakeholder information strategy and stakeholder response strategy clearly align with mainstream research in leadership and strategy, the stakeholder involvement strategy is proposed as a viable strategy for handling the simultaneous interdependence between sense-giving and sense-making processes and the engagement in more complex relations with stakeholders. How this is done and how interrelated processes acknowledge different logics of action, and to what extent these processes support sustainable business, remain empirical questions.

A tentative answer to the question on how engagement and involvement with different stakeholders play out in organisations is seemingly embedded in the relational leadership approach. Recent studies emphasize collective dimensions of leadership as a way forward, i.e., leadership in the plural (Denis 2012), distributed leadership (Bolden 2011) and shared leadership (Fitzsimons 2011). In this particular chapter, we address the notion of leadership in the plural, and more specifically the pooling of leadership at the top of the organization (Denis et al. 2012). Thus, we argue that the current challenges of sustainability work may call for a renewed conception of leadership, one that is centred less on individual leaders and relies more on the involvement of multiple individuals taking on leadership tasks/roles.

STRATEGIES FOR DEALING WITH COMPETING DEMANDS: DECOUPLING, COUPLING, AND CONTINGENT COUPLING

Following the neo-institutionalists' line of reasoning regarding how organizations navigate in a stakeholder society, the main proposition is that organizations facing competing demands most likely end up with decoupled and loosely coupled systems (Meyer and Rowan 1977; Bromley and Powell 2012). The decoupling of policies (talk) and practices (actions) enables organizations to seek legitimacy and adapt to rationalized myths, while engaging in 'business as usual' (Boxenbaum and Jonsson 2008; Bartley and Egels-Zandén 2015). The argument is that legitimate social action is (by necessity) different from rational action. While social action demands subscription to publicly accepted normative frameworks, rational action can be achieved through a myriad of means (Egels-Zandén and Kallifatides 2010).

Decoupling is common in the field of CSR and sustainability, in large part because the field is replete with competing demands, according to Bartley and Egels-Zandén (2015). It is argued that in many industries, the decoupling of CSR policies and practises are fostered by one or more organizational boundaries, implying that organizations may accept some moral responsibility for intermediaries and suppliers but still fight hard to avoid legal responsibility (Shamir 2004). Consequently, a gap between CSR commitments and operational practises is bound to emerge.

Some scholars argue that such discrepancies have a potential to stimulate improvements (e.g., Christensen 2013). Drawing on the notion that communication is performative, the claim is that aspirational talk could pave the way for social change even when organizations do not fully live up to their aspirations (*ibid.*). Relating their argument to CSR, aspirational talk is defined as 'talk about CSR from a variety of positions and across social norms and expectations – in terms of formulating definitions, articulating ideas, laying down principles, contesting standards, publicizing visions, putting forward plans, etc.'. Acknowledging that aspirational talk may lead to double-dealing and decoupling, Christensen et al. (2013) provide viable support for the claim that aspirational talk has the potential to produce positive developments within the field of CSR and sustainability (see also Boiral 2007).

Scholars questioning whether decoupling is a steady state (Boxenbaum and Jonsson 2008; Sauder and Espeland 2009; Hallet 2010; Bromley and Powell 2012) have called for greater attention to how myths, ideals and aspirational talk become incarnate through a process of recoupling, and the conditions supporting a decoupling between symbols and practise. Bartley and Engels-Zandén (2015) argue that the CSR literature and neo-institutional theory also need tools to make sense of so-called intermediate scenarios in which organizations are pushed to reduce the degree of decoupling but are unlikely to embrace substantive reforms fully and durably. The concept of 'contingent coupling' is presented as a mode of circumstantial shrinking of the gap between legitimating symbols (aspirational talk) and operating practises.

While different processes are proposed to create different results when it comes to the leveraging of CSR and sustainability issues, the role of leadership and the conditions of change, as well as its consequences, are still unclear. The purpose of this chapter is to discuss how a relational leadership approach can enhance our understanding of how issues of sustainable business practices evolve in a stakeholder society, using the analytical framework of 'decoupling', 'recoupling' and 'contingent coupling'.

Case selection, methodology and case background

Following Barley and Engels-Zandén, we will argue that new insights can be gained by studying the link between CSR symbolism (talk), practise (action) and the substantive 'on the ground' conditions using a framework that explicitly focuses on decoupling, recoupling and contingent coupling as possibly intertwined processes. Acknowledging that leadership can be a fruitful perspective to enhance the understanding of the dynamics in ongoing change processes focusing on responsible and sustainable business behaviour, this chapter will outline and analyse the process of taking charge in a global telecom company. The study covers a three-year process of intense struggles to deal with internal and external stakeholders and their call for an innovative, sustainable and profitable company.

METHODOLOGY

The study is based on a qualitative research method and fits into the categorization of an explorative case study design where a real-time change process is covered step by step. Data collection included interviews, written documentation and direct observations.

In total, 18 open-ended interviews were carried out with the CEO, the Chair of the Board of Directors, board members, members of the executive management team, staff specialists and external advisors. The key informants were interviewed a total of two to four times over a period of three years (2014–2016). The focus of the interviews was on the change process initiated by the succession of the Chair and the CEO, and more specifically on challenges identified and acted upon by the key actors. Material collected through written documentation included data from web pages, policy documents, reports and existing media coverage.

Following the data collection, the material was coded and analysed as to construct a chronological representation of the change process encompassing the events that the involved actors perceived as central. The constructed representation was sent to the interviewed key informants to validate the description of the change process, including the quotations. The suggested changes were then incorporated into the final version. As discussed in the introduction, corporate responsibility practises are multifaceted and complex, phenomena that are subject to different understandings and interpretations. The presented case, thus, reflects the conceptions and preconceptions of the key informants, as well as our understanding of the process (Egels-Zandén and Kallifatides 2010). With other key informants, the process may look different.

BACKGROUND INFORMATION ON THE ORGANIZATION AND THE SITUATION

The history of Swedish Digital Network (SDN), originally a state-owned telecom operator, goes back to the late nineteenth century. In 1993, the Swedish telecom market was deregulated and the former monopoly was transformed into the commercial company SDN AB. Six years later, in 1999, SDN initiated a merger with its Norwegian counterpart, but the merging partners failed to create common ground and after endless negotiations and some heated accusations from both sides, the merger process came to an unsuccessful conclusion in late 1999. In June 2000, SDN was privatized and listed on the Stockholm Stock Exchange. A year later, another merger initiative came up, this time with a fellow incumbent in Finland. This merger succeeded and the new company was listed in December 2002.

SDN's initial presence in the Eurasian (former Soviet Union countries) and the Turkish market came with the merger with the Finnish company. During the next five years, investments increased in these markets that at the time were experiencing exceptional growth and generating profit margins of up to 60 per cent. In the late 2000s, the investments included majority holdings in companies operating in Azerbaijan, Kazakhstan, Moldova, Georgia, Uzbekistan, Tajikistan and Nepal. As a major shareholder (with 37 per cent of the equity), the Swedish government strongly supported this new strategy.

In 2012, the economic development in the Eurasian markets started to slow down, mainly due to the Russian economic downfall, declines in oil prices and political instability. At the same time, the criticism of SDN's business practices in Eurasia increased, culminating in accusations made by the Swedish investigative TV show *Uppdrag Granskning* that members of SDN's upper management were engaging in corrupt business behaviour. The main news was that the company had entered the market in Uzbekistan by allegedly paying several hundred million dollars (USD) to individuals close to the President. To address the criticism, the sitting Board of SDN commissioned a Swedish law firm to conduct an independent review of whether SDN's investment in the Uzbek market meant that representatives of the company were guilty of corruption-related crimes or money laundering. Convinced that the accusations were baseless, the company committed to full publication of the report.

In February 2013, the Swedish law firm held a public press conference presenting the outcome of the review. Based on provided evidence, the review was not able to confirm any illegal acts had taken place, but it could not rule out the opposite either. When the report was made public, the sitting CEO resigned. At the Annual General Meeting in April 2013, the owners took immediate action. The majority of the board members were replaced (six out of eight seats) and a new Chair of the Board was appointed.

REPOSITIONING THE COMPANY AS RESPONSIBLE AND SUSTAINABLE: IMMEDIATE ACTIONS OF THE NEW CHAIR

The new Chair immediately announced the priorities of the Board of Directors: to initiate a full review of acquisitions and ownership of the operations in Eurasia, and to recruit a new CEO.

In order to address the increasing pressure of external stakeholders, the new Board hired a British law firm to carry out a full investigation of the Eurasian operations. Since the Swedish law firm had already performed a review on Uzbekistan, the British law firm would focus on Nepal, Kazakhstan, Azerbaijan, Tajikistan and Georgia. To support the investigation and provide access to critical information, a 'war room' was established on the top floor at the headquarters in the city of Stockholm. The law firm reported directly to the Board. The Chair recalls the first six months as an extremely hectic period:

> The previous Board had abandoned their role as strategic decision-makers; several top positions were filled with acting managers, and people in the organization exhibited frustration. There was intense media attention where the Swedish prosecutor gave interviews, and the TV show *Uppdrag Granskning* followed up with two new programs.

The search for the new CEO was initiated before the new Chair of the Board was formally elected, but the process was subsequently guided and controlled by her. The new chair had worked at SDN as Managing Director for the Swedish operations but left the company in 2006, hence she was familiar with the historical legacy, the operations and the culture. While still searching for a new CEO, the Board took on operating responsibilities and the Chair became highly involved in the external review, as well as dealing with the waves of frustration within the organisation connected to the investigation and among external stakeholders.

The Swedish media followed the recruitment of the new CEO closely, and did not hesitate to present and openly discuss their own favourite candidates. Meanwhile, the search continued and candidate after candidate was scrutinized in a step-by-step procedure. Finally, the Board made their choice and the new CEO was ready to take office on September 1, 2013.

Another critical recruitment was taking place in a parallel process. In order to secure competence on the ethical business and anti-corruption work, the company recruited a Chief Ethics and Compliance Officer. The main task of this role was to support a clean-up of the Eurasian business, while simultaneously developing and implementing new procedures for responsible business practices and behaviour. The Ethics and Compliance Officer would formally report to the new CEO.

A NEW LEADER IN PLACE

The new CEO was received with a mixture of curiosity and scepticism. In the media, he was described as a young and unknown talent. He had, however, worked his whole career within the telecom industry, a fact that was important to the Board of Directors in the profiling of the new CEO. The telecom industry has its own terminology and jargon, even its own logic. Considering the highly competitive industry, it was important that the new CEO didn't have to spend time learning the industry. In fact, the new CEO had even started his telecom career as a trainee at the head office of SDN. Thus, the company, its culture, and its legacy were well known to him, an experience that he shared with the new Chair. From the view of the new CEO, SDN not only matched his previous experiences from 'difficult markets' in Africa and Asia, but also his professional ambitions to position SDN as a key player in the telecom industry.

MAPPING THE TERRAIN AND BUILDING THE GENERAL MANAGEMENT TEAM (GMT)

In order to better understand the business, the new CEO spent two months before taking office travelling around and meeting with as many employees, managers, customers, owners and stakeholders as possible. When he formally stepped in as CEO, he had already spoken to more than five hundred people in more than fifteen countries. The frequent meetings with new people continued when he was in office.

The first task on the CEO's agenda was to form a general management team (GMT). Building the management team in SDN was considered a crucial action for the success of turning the company into 'the new generation telco'. The new CEO's first composition of the team included 7 persons already holding managerial positions within the company and four external hires. There were some initial concerns about the old-timers and the possibility of them being 'tainted' by history. Nonetheless, their initial support of the British law firm review played in their favour. The new GMT had twelve members, including the new CEO: General Counsel, Head of Region Europe, Head of Region Eurasia, Head of Region Sweden, Head of Group Communication, Head of Group Corporate Development, Head of Group Humans Resources, Chief Commercial Officer, Chief Technology Officer, Chief Financial Officer and Chief Information Officer.

According to the new CEO, the recruitment process focused primarily on finding people with the right competence and the right values. The next step was to make the management team work as a collaborative entity, where each and every participant of the group would be prepared to take a lead and to bring a holistic view to the discussions. 'Highly reputable managers are often strong-headed and are often used to having it their own way – thus getting these kind of people working as a team can be quite a challenge'.

While still in the process of building the general management team, SDN announced (in November 2013) that four senior managers were released from their executive positions. The British law firm review was still ongoing and this round of terminations was a direct effect of their recurring reports to the Board. Despite the internal turbulence and the intense media coverage, the main message concerning strategy and direction stayed the same. With one voice, the Chair and the CEO unfailingly repeated that 'the company is fully committed to stay in Eurasia and conduct business in a responsible and sustainable manner'.

GROWING A PERFORMANCE-BASED CULTURE

A major challenge for the future success of SDN was the culture, characterized by its history of being a state-owned monopoly. After more than ten years as a publicly listed company, the culture was still characterized by a lack of urgency regarding profitability. This was particularly obvious to the externally recruited group of executive managers. They asserted that people within SDN still lived in the protected world of a state-owned company, one that, if necessary, would be financed by the Swedish state.

In order to shake up the culture and impose a sense of urgency and change, a set of corporate values was derived and implemented. With the new corporate values – Dare, Care, and Simplify – in place, a set of activities involving all key managers and talents in the company (top 200 managers) was launched. The purpose was to define leadership expectations and to educate and implement responsible and sustainable leadership. The program was called 'Leadership Boost'. The initiative was launched as a three-module change program, with each module addressing one of the three stated corporate values. A reward system was also put in place that aimed to encourage and reward a more entrepreneurial approach, in hopes of achieving innovative growth and stronger financial result. Common key performance indicators were developed and rolled out across the group. This program was referred to as 'You First'. The idea was to put the individual at the core and emphasize not only the content of operations (what was done) but also how business was achieved.

The new CEO repeatedly referred to the new corporate values and 'You First' as the main pillar in the engagement dialogue with SDN employees. The change program was an invitation to co-workers to participate and make a difference, but it was also a quest to achieve more broad-based commitment to stay true to the new strategic vision and the corporate values.

In the Eurasia business, where more than 60 per cent of the managers were replaced, the new CEO formed a team of top managers from each country. The region management in Eurasia expressed pride in working for SDN and cherished the emerging culture and the new corporate values. The dual objectives of fighting corruption and implementing sustainable business models were perceived as both challenging and rewarding. Frequent visits combined with hard work on anti-corruption policies and practices, corporate values and leadership seemingly paid off. During a taxi ride from the airport, a local taxi driver turned to the new CEO and expressed a sentiment seemingly shared by the local SDN people – 'Thank you for bringing democracy to my country'.

TAKING STOCK OF THE FIRST 24 MONTHS

During the first six months, the Chair of the Board and the new CEO worked closely with daily contact. In operating the business, the rough task-order was linked to the two main strategic issues, cleaning up corrupt behaviour in Eurasia and repositioning SDN as a new generation telco. While the Chair focused on current investigations and compliance issues, the CEO concentrated on building a new team and creating the foundation for a new leadership practice. In the Chair's words, 'I handled the external relations relating to the investigations and the rebuilding of trust, while the CEO dealt with internal issues and the strategic positioning of the company'. This work order was also roughly reflected in the external communication. The Chair took the lead when the allegations of historical misconduct in Eurasia were on the agenda. She also frequently gave talks on anti-corruption, responsible leadership, and sustainable business. The CEO focused on the future of the industry, SDN's role in the emerging new landscape and the need to identify new, innovative business partners and increase the pace of change.

Until March 2014, when the British law firm review was formally handed over to the operational management, the Chair was heavily involved in the work of supporting the review and restoring the brand. This was also the case when the US Department of Justice, US Securities and Exchange Commission, and the Dutch authorities announced that they had opened up their own investigations of SDN.

From the very start, both the CEO and the Chair expressed a firm belief that it was possible to conduct responsible business in markets such as Eurasia. However, after the first year in charge, their speeches at the Annual General Meeting in April 2014 expressed a more nuanced view. The Chair concluded her speech by saying:

> Much has been done...but we still have a lot to do. We have focused on the big risks, and we build from the ground up. We have been left with a legacy, but the Board and the management are fully aware that it is now our responsibility to deal with the consequences. SDN has established itself in some countries that are among the most challenging countries in the world with regards to doing business

> sustainably, honestly, ethically, and abiding by the law. We must feel assured that we are sufficiently strong to continue to conduct these business operations sustainably and be able to handle the big risks that still exist in the operations. We need to take a stand, and when we have taken a stand, we must dare be transparent and talk about the difficult and complex challenges we are facing.

Conversely, argued the Chair, leaving is not necessarily an easy or even responsible way to handle the business in Eurasia. 'You can't simply leave the keys on the table and go home to Sweden. We have 4800 employees and many millions of customers we don't want to abandon'.

In his speech the CEO alluded to the same theme:

> as a result of resolute action, we now have an SDN that is on the right track. Much time and effort has been spent to restore confidence in the company, and this will continue. But we will now also step up the pressure on the business issues in our new operating model. Much remains to be done. Now we will continue to build a SDN where all parts work together in an effort to create sustainable values in the long term for all shareholders. It will be tough and challenging, but very exciting.

Despite the efforts to be transparent and open at the Annual General Meeting, some major concerns were raised. Was there a price to be paid for the changed business practices in Eurasia? What, and when, was the new generation telco going to deliver? When would there be an end to the investigations by the authorities? How big was the risk of the investigation spilling over to other countries?

A new business model was under implementation, but management had not convinced the market of SDN's prosperous future, and adding to the uncertainty, the company still had not reached a resolution with the authorities relating to the investigations of the Uzbek market entry. As for penalties, it was no longer a question if the company had to pay, but rather how much.

The Annual General Meeting in 2014 did not give the former CEO discharge of liability for 2013 (i.e., January 2013, when he was in charge before resigning).

INTENSIFYING (EXTERNAL) STAKEHOLDER INTERACTIONS

The new CEO spent considerable time broadcasting the vision and mission of SDN. He used all possible channels: formal, informal, virtual and face-to face. He did video blogs, wrote on the intranet and gave interviews to daily newspapers, magazines and radio. He took part in panel debates and discussions within the industry; he participated in the annual Davos meeting for top leaders of the world; and he talked to EU commissionaires. The stated objective was to inform stakeholders about progress in SDN, and to educate and also inspire people to take an active part in the digitalization of the telecom industry. The context varied but the overall message stayed the same. In one of his first interviews with the daily business magazine *Dagens Industri* (June 2013), the new CEO points out the need for SDN to be more innovative.

> We have to dare more. [. . .] We have to increase the pace and meet our industrial challenges. The industry is in an intense phase of development right now, and unless we are extremely fast and insightful about what is happening, we automatically end up behind. We must dare to take more risk in building the new generation telco, and move into related industries and related fields.

Even though the CEO persistently focused on SDN's future challenges, how management would address the increased competitiveness and the strategies for turning the company into a key player, the alleged corruption in the Eurasian markets continued to be the top story in the media. When SDN was mentioned in reporting, the word 'scandalous' was frequently used to set the scene. The Chair commented on the reporting. 'This morning, for instance, the reporting in the business news started with 'SDN, *burdened by scandals'*. It was so frustrating; we work so hard and people at SDN deserve to be portrayed without always being associated with the historical problems in Eurasia'.

The media turmoil kick-started by the investigative TV show continued. In addition, the Swedish government, the major stakeholder in the company, came forward and demanded explanations. The story would not go away; every day new facts came to light supporting the narrative that the media had chosen as their main storyline: SDN bribing its way to new markets. An external expert explained: 'The fact that the company initially denied the allegations did not help the work of the new board and management'.

Several initiatives were undertaken to invite external stakeholders into a dialogue about responsible and sustainable business in 'difficult markets'. The Head of Communication describes how SDN invited 15 investors and reporters to visit the operations in Eurasia. 'By getting a first-hand impression of how to do business in Eurasia and a better idea of the change and progress taking place, we hoped for more nuanced reporting on our business. It was a successful trip but after a week back in Stockholm facts about the former corruption started to reach the news desks again, and the reporting took on the same negative tone as before'.

Meanwhile, the Chair and the CEO fully acknowledged that the investigation of corrupt behaviour was not about a single transaction, but rather to find out if there was a pattern of illegal transactions which would not meet the ethical standards of the newly installed business practice.

ALL IN – (RE)DEFINING SUSTAINABILITY

Sustainability work within SDN was at the time clearly divided into two separate areas: responsible business, including compliance work and CSR-related issues regulating how to run the operations in a responsible and sustainable manner, and innovation and sustainability based on the new (corporate) value propositions, referred to as 'All In'.

The responsible business work was primarily targeted towards anti-bribery, corruption and the development of an ethical code encompassing freedom of expression and privacy, customer privacy, occupational health and safety, responsible procurement and environmental responsibility. This work was organized and led by the Chief of Ethics and Compliance Officer.

The All-In strategy focused on digital inclusion and was developed in parallel with the new business strategies, and thus as a way of building stronger societies and creating shared value. Four strategic objectives were identified: connecting the unconnected, education for all, a healthy and safe society, and digital entrepreneurship and innovation. As stated on the company's website: 'Connectivity and technology have significant effects on social progress. To leverage our core competencies and business to create shared value – combining social good with business benefits – we have created the All In strategy.'

The All In strategy was organized and led by Head of Corporate Development. She explained: All In is 'our way of doing sustainable and responsible business that is good for us and good for society'. The underlying argument is that providing internet access to people lacking this was a beneficent act in itself.

Acknowledging, however, that doing business in emerging markets and undeveloped countries could be extremely challenging, the CEO added:

> Experience from Eurasia tells us that the governments may well demand access to the net and tap into private telephone conversations. Being there, the only thing you can do is to make these requests as transparent as possible and thereby slowly initiate a change.

EXIT EURASIA

On the morning of September 17, 2015, the Head of Communication at SDN called a press conference. SDN's Chair and CEO approached the podium together. The top news for the day's conference was that SDN was leaving Eurasia.

The duo presented the rationale behind the decision. SDN would focus on the markets closer to home and over time fully leave Eurasia; the Board of Directors had decided to start preparing for a responsible exit. SDN would now concentrate on its other two business regions: Sweden and Europe. In the press release that was put out, they underscored that it was possible to do business in Eurasia, but that it was important to enter in the correct way. In the Annual Report for 2015, an explanation was given under the heading Leaving Region Eurasia Responsibly:

> The Board of Directors' decision to dispose of the operations in the Eurasia region would transform SDN. On the one hand, the margins in the region had been high, and historically the growth had been fast. On the other hand, it had been problematic in many ways to operate in the region. In some of the markets, we have unknown co-owners, and it is difficult to repatriate cash. This and other challenges in the region have required our attention and lots of resources. The decision to leave has been announced and will give us focus, strength, and energy to develop our operations in the Nordic and Baltic countries, where 80 per cent of our net sales come from. We have made progress in finding new owners for our operations in the region: We have, for example, been able to announce the sale of our subsidiary in Nepal. When we leave these markets and say goodbye to our good and competent employees, we must do it as carefully and responsibly as possible. We want to hand over well-managed operations with ambitious sustainability efforts and satisfied customers.

The Chair explained:

> When I first became chairman of SDN and visited some of the countries in the region, I believed everything was getting better. But the outcome has been the

> complete opposite – our operations have improved, but the general environment has gotten worse, the economy, politics, relations, etc. You simply have to do it right from beginning. We were set up to fail in Eurasia.

She continued: The option of leaving the Eurasian market had been discussed among the board on several occasions throughout 2015. There were several reasons for this: the steady stream of bad news regarding previous deals, legacy partnerships with the ruling elite and unethical behaviour that never seemed to end. The more they investigated, the more they found. Many of the intricate and sophisticated legal arrangements were simply too complicated to be solved or too time consuming. If you have entered a market in the wrong way, it becomes complicated to unwind the structures.

Elaborating on the exit decision, the CEO admitted that top management underestimated the allegations of corrupt behaviour. He had experience from other difficult markets in Asia and Africa, and he sincerely thought it would be possible to conduct business responsibly in Eurasia. Even though this turned out to be true, it had not been possible to take the markets to the next level as a consequence of SDN's legacy in the region. As time passed and the historical issues continued to cause problems, he, the executive management team, and the board started to reconsider the initial decision to stay in Eurasia. Several ongoing investigations requiring management focus, never-ending problems that sucked up energy and a growing conviction that Scandinavia and the Baltic-Nordic countries needed more investment, all paved the way for the exit.

The exit announcement triggered changes in the governance structure. The work that had been done to integrate Eurasia into the rest of the group came to an end. A separate structure was set up for the exit process. The work on performance management, responsible business, compliance and reporting continued, but ongoing commitment and involvement such as best-practice sharing, leadership development and long-term projects came to a halt.

The CEO carved out Eurasia and started to sell off stock, country by country, with Nepal being the first divested asset in April 2016 – the deal closed seven months after the announcement of the exit.

> As long as we have ongoing investigations in these countries, and as long as we stay, we will be in the headlines. Focus will be on the old, not on the new. We need to sell in order to refocus the business. Eurasia is now my responsibility, not

> an issue for the executive management group. I handle it as a responsible exit project with a separate board not to disturb the development of the new SDN.

Commenting on management's consistent assertions that SDN would stay in Eurasia, a member of the executive management group revealed that the initial clean-up of corruption took two years. 'Before the clean-up, it was not possible to sell the assets without risking huge criticism for irresponsible behaviour from stakeholders and the public'.

In the Eurasian operations, the reaction to the exit announcement was great disappointment. 'Many of the employees in the region had put their souls into the change process and felt a great excitement about the renewed management practices and the focus on responsible business' says the Chief Ethics and Corporate Compliance Officer. Several NGOs commented on the exit by saying that SDN was the one positive force in those markets, questioning whether the exit was truly a responsible act.

REDEFINING SUSTAINABLE BUSINESS MODELS

In 2015, the CEO repeatedly claimed that it was possible to build a new type of telecom business, and that there was a real need for such a model. He conceded, 'It is understandable that people want to stick to old, established business models, but the traditional way of doing business is threatened and will become obsolete. These models are unsustainable'. The CEO's mission, however, is not only to make SDN a new generation telco, but also to be a transformative force in the industry.

> People start to understand that we are leading the development to change the industry, and we have to change it from scratch. The biggest change is really about how we treat our customers. The customer today has a completely different way of buying services and communicating. On top of that, we have to regain trust from our customers and prove to them that we can handle customer information and customer data. For the last 20 years, we have locked our customers into long-term contracts and conditions, selling them services they weren't interested in in the first place. It is the image of the whole industry.

Moving from an 'ego-system' where the business models and competitors were known to everybody to an 'eco-system' where most of the competitors are unknown and the business models are undergoing disruption is a significant change. The CEO explains:

> We are challenged by internet players, content players, social media players, the Googles of the world, and all of them want to get hold of the communication component that historically was monopolized, but still is our core business. Thus we need to collaborate and compete at the same time with the same companies. We collaborate to learn as much as possible about innovation and end-customer behaviour, but we also have to compete to defend our customer base and our core business.

In June 2015, SDN announced that it had made an investment in a well-known music sharing company that had taken the traditional music industry and the rest of the world by surprise with its pioneering thinking and innovative approach to music distribution.

REBRANDING THE COMPANY AND THE NOMINATION OF A SUSTAINABILITY LEADERSHIP AWARD

In April 2016, the board announced the renaming of the company to 'Nordic Digital Network' (NDN), explaining that it was an important step in the transformation process. The evolving market environment and the transition to the era of the new generation telco called for another story based on an ambition 'to be something more to the customers', but still acknowledging the roots of the company.

Calling for a fresh start, the CEO added, 'The hardest thing in the change journey is the storytelling, internally and externally. To be able to express our history, our vision, our engagements and commitments is crucial'.

A few months later, the Head Office of NDN moved to a new building in a rapidly expanding business area in the north of Stockholm. With an activity-based working environment as the main concept, co-workers were invited to engage in networking and boosting relational capital.

In June 2016, NDN Company's Chair was nominated for a sustainable leadership award hosted by The Swedish Association for Sustainable Business. The Sustainable Leadership Prize is awarded to leaders in the Swedish business sector who through exemplary leadership have contributed towards social, economic and/or ecological sustainability in their organizations and in society. The purpose of the award is to draw attention to the work on sustainable development carried out in Swedish society and to increase interest in these areas. The nomination was for her systematic work, perseverance and innovative thinking, which has helped change a large organization operating in some of the world's most challenging markets.

Discussion

The case illustrates an interesting example of how decoupling, coupling and contingent coupling are used in parallel to enhance the transformation of a company suffering from a historical pattern of misconduct and misbehaviour. The new leadership inherits problems and the lingering effects of misbehaviour caused by previous leadership, and accepts a mandate where cleaning up the misbehaviour must occur simultaneously with the repositioning of the company in an emerging digital landscape. The new leadership includes both a new Chair of the Board and a new CEO. Addressing the dual assignment – cleaning up misconduct and building the new – the Chair and the CEO established a working process based on tight communication and separation of task and attention. Still, the overall responsibilities follow the Swedish practise of governance, where the Chair of the Board recruits the CEO, runs the Board, and chairs the Annual Meetings.

THE TAKING CHARGE PROCESS – AS A PARALLEL AND INTERTWINED PROCESS OF DECOUPLING AND COUPLING

From the very beginning of the taking-charge process, the Chair and the CEO exhibited a working pattern that could be interpreted in terms of decoupling and recoupling of talk and action. Taking an officialist view (see Egel-Zandén and Kallifatides 2010), discrepancies between corporate intentions and practices, or even differences in corporate talk for that matter, are regarded as a problem that needs to be overcome. This perspective takes particular interest in discrepancies and irregularities as manifestations of managerial irrationalities. Following the route of the (pragmatic) institutionalists, decoupling constitutes a strategy for dealing with competing demands, i.e., it is a highly functional technique for survival. The main idea is that social talk *should not* mirror practise, but rather should allow *both* legitimate talk (social actions) and effective action (practise) to be undertaken. This also means that stakeholder pressure can lead to alterations in talk (policies) without exerting any perceptible impact on practise. The extent to which the working pattern displayed by the Chair and the CEO represents an intentional strategy is not the chief issue of this paper. Rather, our focus is on describing how decoupling, recoupling and contingent coupling of talking and action takes the form of a simultaneously parallel and intertwined process, triggered by internal and external circumstances.

EXAMPLES OF DECOUPLING: ADDRESSING STAKEHOLDERS WITH DIFFERENT MESSAGES

Since decoupling is considered almost to be the default state in organizations dealing with competing demands and sustainability, situations in which such behaviour emerges are expected to be rather frequent during processes of transformation. Our case is no exception. The taking-charge process involving two new leaders and a two-pronged assignment – cleaning up misconduct in the region of Eurasia and building a model of the new telecom company – led to a division of the work on sustainability from the very beginning. The new Chair focused her attention on restoring and building trust. She initiated a full review process of operations in the Eurasia region and started involving stakeholders in a dialogue on how to run the process. She also took steps to recruit an Anti-Corruption Compliance Officer and strongly supported the development of a companywide anti-corruption program and strategy of transparency for the company website. Meanwhile, the new CEO focused on the strategic positioning of the company and internal affairs, thus pushing innovation and the positioning of SDN in the new digitalized landscape. He built internal relations, recruited the general management team (the GMT), initiated new internal processes for doing business (e.g., Leadership Boost and You First) and started devising and honing the vision of the new generation telco.

Even though the formal handover of the external review of Eurasia took place a year after the appointment of the Chair, the sustainability work continued with full force. The Chair's prime focus was still on restoring the brand, fielding questions related to how business was being done, seeking to boost transparency and collating proof of the company's moral and ethical behaviour. Meanwhile, the CEO continued pushing the new business model, launching the All In Strategy. The Chair and the CEO worked closely together, but they were facing different stakeholder groups. The Chair focused on owners, government representatives and the media, emphasizing ethical issues, while the CEO worked with employees and the telco industry, as well as interfacing with the media on the strategic positioning of the company.

Another example of decoupling was demonstrated when the exit from Eurasia was announced. The first action taken was to make Eurasia a separate organizational unit with its own management and governance. The integration work (including leadership training) came to an end, and the Eurasian business was no longer a matter of the general management group at SDN.

Yet another interesting manifestation of decoupling was initiated, this time by external actors, with the nomination of the Chair for a leadership sustainability award. Through this process, she was recognised as a role model for her perseverance and innovative thinking in the area of social and economic sustainability in business and the larger society.

EXAMPLES OF COUPLING: ADDRESSING STAKEHOLDERS WITH SAME MESSAGE

Following from the case, situations of decoupling of legitimizing symbols (talk) and operating practises (action) are identified along with situations where the Chair and the CEO demonstrate congruence in talk and actions, as well as situations where past, present and future were blended together (recoupling).

In 2013 and 2014, the Chair and CEO repeatedly declared that it was possible to do business in emerging markets and that SDN had no intention of leaving Eurasia. They admitted that the Eurasian countries were difficult markets to operate in, but contended that SDN planned to stay and conduct business in a responsible way. Together, they demonstrated a conviction that the company had the experience and capacity to do business responsibly in the region: 'We don't believe anyone can do it better'. There was also a mutual understanding between the Chair and the CEO regarding the scope and time frame for turning things around. They both communicated that they would handle the historical misconduct of the former leadership and lay the groundwork for the new generation telco.

Another example of coupling was the training program 'Leadership Boost' directed towards the top 200 executives and talents of the company. The main purpose was to implement and strengthen the new corporate values, thereby addressing the content of business (the what) and the way of doing business (the how) simultaneously. The implementation of 'You First' was, in a similar vein, a coordinated action to assign measures to the new goals.

The rebranding of SDN to NDN in 2015 could be seen as yet another example of coupling, this time as a moulding together of the past and future. The Chair and the CEO acted in concert in a staged performance signalling a new beginning where the new business model, the new corporate culture and the new ethical code were to be fully integrated.

EXAMPLES OF CONTINGENT COUPLING: ADDRESSING STAKEHOLDERS WITHIN A FRAMED SITUATION

The concept of 'contingent coupling' is presented as a mode of circumstantial shrinking of the gap between legitimating symbols (talk) and operating practises (action). Following Bartley and Egels-Zandén (2015), we interpret this as situations where stakeholders are addressed within a clearly framed situation. Components of the strategic communication and the presentation of the vital decisions seemingly created a temporal coupling and can therefore be characterized as a fleeting period of contingent coupling. A recurrent event is the Annual Meeting, when the Chair and the CEO faced the stockholders together and presented a well-rehearsed shared message. In 2013, the main message was the commitment of management and the board of directors to review the former leadership and to make right what had been done wrong.

Forming the general management group (the GMT) is another example where the message is contingent. The new GMT comprises members from within the company as well as externally recruited members. The internally recruited members disassociated themselves, in action, from the former leadership by supporting the British law firm's audit, hereby signalling that they were willing to change.

In the Annual Report of 2014, several statements were made declaring that a new era was beginning. The main focus was still on the clean-up of former leadership misconduct, but the report included a clear message about the future: the vision and mission of the new generation telco. At the Annual Meeting in 2015, the Chair and the CEO stated that the transformation of the company was still ongoing and proceeding apace, but that the clean-up of corrupt behaviour was taking more time than they expected.

The table below summarizes the actions and talks executed in parallel by the new leadership. Following from the discussion, some situations trigger decoupling – i.e., when talk and action diverge; when talk and action are separated in time; or when different instances of talk are addressed to different stakeholders. Other situations trigger coupling – i.e., when congruence in talk and action is called for, or in situations where the past and future come together in a constructed present. There are also examples of temporal coupling, where talk and action overlap, but within a framed situation (contingent coupling).

	DECOUPLING	RECOUPLING	CONTINGENT COUPLING
2013–2014	The new Chair and the new CEO enter the company. They divide the work on sustainability between them: The Chair focuses on negotiations and restoring trust (cleaning up historical misbehaviour and errors), while the CEO focuses on strategic positioning and internal affairs (pushing innovation and the positioning of SDN in the new digitalized landscape).	The Chair and the CEO both declare that it is possible to do business in emerging markets and that SDN will stay in Eurasia. They also express a common view regarding the scope and the timetable for turning the tables.	The reoccurring event is the Annual Meeting when Chair and CEO together face the stockholders and send a coordinated message. In 2013, the message was to review the former leadership and to make right what had been done wrong. The CEO forming a GMT sent a signal about who is in and who is out.1 The Annual Report of 2014 includes a clear mission and vision statement for the future. A new era is initiated.
2014–2015	The separation of sustainability work continues. The Chair´s prime focus is how things are done; transparency; and compliance with newly imposed ethical values. CEO is pushing the what issues, including launching the 'All In' strategy.	Leadership Boost, a training for the top 200 executives and talents, gets underway. The *what* and the *how* are addressed simultaneously. Turnover of management in Eurasia occurs. The implementation of 'You First' is an attempt to assign measurements to goals pertaining to *what* and *how.*	At the 2015 Annual Meeting, the Chair and the CEO declare 'in one voice' that the process of cleaning up in the wake of accusations of corruption is taking more time than they expected.

2015–2016	The exit from Eurasia. Eurasia is made a separate organizational unit with its own management and governance; it is no longer a matter of concern for SDN GEM. Chair is nominated for sustainability award. *What* and *how* still are not integrated in the rhetoric of new business models.	Rebranding of SDN to NDN. The map of stakeholders is changing as focus is moving towards the new generation telco.	Head office is moved to a new activity-based facility outside the city of Stockholm.

Table 1 A: Parallel and intertwined processes of decoupling and coupling

Taken together, the taking-charge process depicts decoupling, recoupling and contingent coupling as an intertwined process that reflected the complexity of the situations that the Chair and CEO had to manage. From a managerial point of view, both talk and action were ways of protecting the organization (from previous mistakes such as decoupling anti-corruption work and development of new business models), protecting themselves (by separation of issues but also by acting in concert), responding to different stakeholders with sometimes-conflicting demands (adapting to demands but simultaneously pushing for a new business model where another type of risk-taking was identified), and at the same time being able to uphold the image of leadership as a rational practise (adopting rationalized myths). Drawing on the notion that communication is performative, this case gives some support to the claim that aspirational talk could pave the way for social change, even if the organizations did not fully live up to their aspirations (Christensen 2013; Boiral 2007). The implementation of the You First program as an attempt to assign measures on goals addressing ethical behaviour, innovation and sustainability could at the same time be interpreted as a response to aspirational talk taking place in different contexts and arenas.

RESPONSIBILITY AND SUSTAINABILITY – EMBEDDED INTERPRETATIONS IN TRANSITION

The Chair and the CEO divided their work and responsibilities between them and addressed sustainability from two different platforms: anti-corruption and ethical behaviour on the one hand, innovation and digitalization on the other. The clean-up of corruption and misbehaviour is primarily a reactive process, but the main objective was to produce preventive policies and guidelines. The embedded context included the past, present and future, and the concept of risk was clearly related to possible misconduct, criminal behaviour and moral wrongdoing.

The innovation platform had a more future-oriented take on sustainability in which the prime focus was on developing new business models, where responsibility and sustainability were related to 'new ways of doing business'. The meaning of sustainability was embedded in an emerging eco-system where SDN's aspiration was to position itself as one of the frontrunners. For instance, the corporate value Dare signalled a conception of risk that was related to 'betting on a future and making investments big enough to be a key player' in that context. Yet another example of sustainability was the concept of transition, where meaning was defined by feasibility. In the beginning of 2014, staying in Eurasia was proposed as a strategy for effectuating sustainability. In late 2015, a strategic shift was announced where leaving Eurasia was considered a necessary step. Due to historical legacy and external pressure, the notion of sustainability was thus transformed to align with what was perceived as actionable at the time.

PLURAL LEADERSHIP AS AN ENHANCER OF SUSTAINABLE BUSINESS

Coupling and decoupling are processes taking place simultaneously, involving several individual actors. This creates gaps or 'slack' that allow the individual actors (in this case, the Chair and the CEO) to adapt and tweak the concepts of sustainability and responsibility in accordance with their perceived audiences or stakeholder groups. Parallel processes created flexibility to address different expectations, as well as to handle the notion that 'responsible behaviour' could have different meanings in different context.

Based on our case, we propose that the notion of leadership in plural and, more specifically, 'shared leadership' is useful for attaining a better understanding of how decoupling and coupling are acted out as both intentional strategies for responsible and sustainable business behaviour and as the results of external pressure and improvised action. Our findings suggest that shared leadership (i.e., pooling leadership resources at the top) may work as a role-modelling device for exploring new leadership practices, at the same time opening up a new understanding of how institutionalized processes can pave the way for a more efficient way of handling competing demands in complex environments (Waldman 2014). Our findings further imply that sharing leadership is not necessarily a choice, but could be interpreted as a practical solution devised to cope with plurality already present in the context. Drawing on the work of Denis, Langley and Sergi (2012), the key concern then is not to collectivize or pluralize leadership, but to channel pre-existing pluralism. This is a situation where 'leadership is taken, not given, and a plurality of leaders is needed because no single individual alone could conceivably bridge the sources of influence, expertise and legitimacy needed to move a complex social system forward constructively' (*ibid*: 66).

Conclusions

As stated in the introduction, this chapter aims for a better understanding of how responsibility and sustainability are being addressed by global actors in a stakeholder society. We clearly position our chapter in the stream of research recognized as pragmatist institutionalism, thereby claiming that rationality and rational behaviour is not primarily concerned with closing the gap between talk and action. Rather, we argue that sustainability in global contexts is far too complex to be addressed by prescriptive leadership models. Based on this case, we conclude that addressing sustainability in a stakeholder society demands an intricate pattern of talk and action, proactive and reactive behaviour, intentional strategies and improvisational and responsive activities. The case clearly shows that decoupling and coupling are not steady states, but rather parallel and intertwined processes, where the actors' understanding and interpretation of responsibility and sustainability are in constant flux. External pressure and internal aspirations come together to form new interpretations of what should be included in the categories of responsible leadership and sustainable business behaviour.

What we have depicted is a continuous and intertwined process of decoupling, recoupling and contingent coupling from the perspective of a relational leadership approach, thereby showing empirically how issues of sustainability are addressed as a practise of collective and shared leadership in a complex global world. By combining the institutionalist framework of decoupling and coupling and the concept of shared leadership, we have contributed to a refined understanding of responsible leadership in a stakeholder society.

The case of SDN does not end here – the quest for responsible leadership is not an issue that has a finite ending. Rather, it requires work that will take on new shapes and forms depending on the context, the external pressure, and the agency of leadership, either as individual agency or a collective shared effort.

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CHAPTER 10

The fundraising manager's dilemma

Balancing diverse stakeholder images

LIN LERPOLD AND URSULA TENGELIN

The rhetoric and behavior of fundraising organizations have become closely similar to the language and practices within the for-profit, corporate world. Contemporary fundraising's changing focus towards branding, marketing and campaigns, market share, performance and competition has come to characterize the professional nonprofit organization (Bradach et al. 2008; Letts et al. 1999; Neuhoff and Searle 2008). As nonprofits have increasingly embraced managerialism (Hwang and Powell 2009) and have become what we call 'corporatized', debate has grown as to the risks of corporatization amongst organizations whose missions, values, passions and ethics are perceived as different from those of for-profit organizations (Rothschild and Milofsky 2006). Contemporary diffusion towards and implementation of corporate management practices in fundraising organizations has implications for how the nonprofit organization is understood by both internal and external stakeholders. When an organization identifies itself as belonging to either the nonprofit or the for-profit sector, stakeholders believe they understand which kinds of missions, practices and behaviors are expected and how they can evaluate the organization (King and Whetton 2008). When a nonprofit project's cause or mission-based image is projected, but it emulates in practice the for-profit organization, stakeholders become confused in their assumptions and expectations of the organization. In the eyes of stakeholders such as donors, organizational survival and legitimacy (Meyer and Rowan 1977) could be connected to aspects associated with the nonprofits' image of being mission-driven. Discrepancies between organizational identity (who we believe we are as an organization) and image (how the external world sees us as an organization) may lead to adaptive 'organizational instability' (Gioia et al. 2000). The unaddressed gap between identity and image amongst stakeholders may have strategic and structural implications (Young 2001) and could ultimately lead to what some have described as organizational 'schizophrenia' (Brilliant and Young 2004).

In this chapter, we explore the tension in managing mission-based organizations that are under pressure to move towards corporatization. To do so, we link organizational identity theories with stakeholder theories and explore the perceptions of corporatization among Secretairies General (SGs) for five of the largest nonprofit fundraisers in Sweden. We are especially interested in exploring how fundraising organizations have adapted to the pressures of corporatization and what implications that adaptation has had on stakeholders' view of the fundraising organizations. We are also interested in understanding how nonprofits balance the tension stemming from multiple organizational identities within the organization and from diverse stakeholders' expectations.

Organizational identity and stakeholder theory

Organizational identity is a sum of what is taken by organization members to be central to the organization, what renders the organization distinct from other organizations, and what are perceived to be the enduring and persistent features linking the present organization with its past and the future (Gioia et al. 2000). Organizational identity represents how members of an organization answer self-reflective questions such as: who we are; what kind of business we are in; and who we want to be in the future (Albert and Whetton 1985). The concepts of identity and image are especially important, assumed as interlinked but separate constructs, or 'cousins' (Gioia 1998). Organizational identity is defined as the way organizational members see themselves as an organization, whereas organizational image is defined as the way insiders believe that outsiders see the organization (Dutton and Dukerich 1991). Discrepancies between identity and image can be seen as either inconsequential or important enough to merit attempts at alignment (Gioia et al. 2000). In this way, gaps between organizational identity and organizational image are linked to adaptation processes and organizational strategic action. Perceptions of organizational identity and image are formed through membership in formal groups or through benchmarking processes (Gioia 1998), or through more informal networks, including the industry to which a company belongs (Elsbach and Kramer 1996) in the competitive identity domain (Livengood and Reger 2010), the organizational form these companies use, or through membership in accrediting bodies (Sarason 1998). Organizations engage in categorization, identification and comparison in their construction of a self-reflection or in the pursuit of a positive social identity (Tajfel and Turner 1985). The notion that identity can be studied at multiple levels is closely linked to whether or not individuals, groups and organizations have one sole identity or multiple identities. Individuals have multiple identities within themselves depending on the relevant issues, circumstances and roles (James 1918), and given the number of groups to which an individual might belong, his or her social identity is assumed to consist of an amalgam of identities (Ashford and Mael 1989). Similarly, organizations have 'hybrid' or multiple identities depending on an issue's temporal salience or specific context (Albert and Whetton 1985; Gioia 1998; Pratt and Foreman 2000); thus organizations can assume a multiplicity of identities or 'multiple selves' in a particular context or audience (Rindova and Fombrun 1998).

A stakeholder is 'any group or individual who can affect or is affected by the achievement of the organization's objectives' (Freeman 1984: 46). Stakeholder theory posits that organizations are constrained by the social environment of which they are part, and that organizations unresponsive to stakeholder pressures and social expectations risk losing their perceived 'license to operate', thus putting their own survival at stake (Freeman 1984). Organizational projected images constitute an organization's reference group and provide stakeholders with standards by which assessments of the organization are made (King and Whetton 2008). Identification with stakeholder groups (Jones 1995), both internal and external to the focal organization, includes all those who have expectations pertaining to the organization's successful operation (Donaldson and Preston 1995). Organizational identity and image are defined in the minds of managers and stakeholders through a dynamic, reciprocal and iterative process 'on the meaning of organizational events, policies, and actions; the construction and presentation of organizational images; the interpretation of identity-relevant feedback; and cognitive reconstruction activities' (Scott and Lane 2000: 45). Managers, such as SGs of nonprofits, project desired organizational images to stakeholder groups but are also influenced by stakeholder reactions. While positive and congruent stakeholder group reactions may cause differing degrees of passive managerial reflection, negative stakeholder appraisal, along with the time periods during which managers view the negative organizational images as highly important to the organization, incurs a more active identity and image self-reflection (Albert and Whetton 1985). Stakeholder groups can be internal or external to the focal organizations (Jones 1995) and are subsumed in stakeholder networks of varying density (Rowley 1997). In denser networks, stakeholder group views will be more congruent and exert a greater influence on managers (Rowley 1997), while in less dense networks with fewer shared behavioral norms, stakeholder groups are more likely to have conflicting expectations of an organization and managers are less likely to acquiescence to or even pay attention to the opposing views (Oliver 1991). Stakeholder identification and salience is based on stakeholders possessing one or more of three relationship attributes: power, the ability to impose their will on organization; legitimacy, their actions or claims to be proper and appropriate; and urgency, their claims on organizational attention are both time-sensitive and critical to them (Mitchell et al. 1997).

Though recent research linking multiple identities and images vis-à-vis multiple stakeholder groups has focused on the influence of the organizations' relations with stakeholders (Brickson 2005) and the management of minimally competing or conflicting identities and images (Price and Gioia 2008), to our knowledge, little research has focused on how managers in fundraising organizations balance the salient differences between what Rothschild and Milofsky (2006) describe as the values, passions and ethics characterizing nonprofits from for-profits. Indeed, fundraising organizations whose 'raison d'être' is focused on a mission, yet which are still dependent on funds, constitute a perfect setting for exploring and understanding how organizations manage multiple identities.

Methods

Our study employs an inductive approach (Glaser and Strauss 1967), grounded in the phenomenon of corporatization. Our data collection involved three data sets – semi-structured interviews, focus group discussions and archival data – gathered from five of Sweden's largest fundraisers.

FUNDRAISER	2009	2008	2007
UNICEF – Sweden	**479**	**414**	**220**
The Swedish Cancer Society	**433**	**427**	**410**
Save the Children	407	392	320
Swedish Red Cross	**348**	**330**	**282**
SOS Children Villages – Sweden	**220**	**210**	**200**
Doctors without Borders	204	195	143
Plan Sweden	**181**	**211**	**209**
WWF Sweden	180	178	158
Swedish Church	177	201	180
Heart and Lung Foundations	176	144	119
Total Top 10	**2.805**	**2.702**	**2.241**

Source: Swedish Fundraising Council, FRII/EZ, March, 2010.

Table 1. Top 10 in Terms of Funds Raised (million SEK)

In the first data collection phase (early 2009), in-depth, semi-structured interviews were conducted with SGs of UNICEF Sweden, the Swedish Cancer Society, Swedish Red Cross, SOS Children Villages Sweden, and Plan Sweden. Each interview was conducted in the SG's office using an interview guide. We used a 'descriptive stakeholder theory' approach via which participants' view of what the organization was vis-á-vis stakeholders, as well as the mechanisms through which different views come into being, were explored (Donaldson and Preston 1995). Interviews lasted between 60–90 minutes and focused on identification of salient stakeholder groups, how stakeholder groups perceived the nonprofit, and how SGs managed the diverse perceptions. The interviews were tape-recorded and transcribed. The second data collection phase (end of 2009), involved a two-hour focus group discussion with the SGs, as well as a short survey in which each SG was asked to rate the stakeholder groups according to Mitchell et al.'s (1997) variables of power, legitimacy and urgency. In the focus group, results from the interviews were presented and discussed, including identification of salient stakeholder groups, as well as discussions of similarities and differences in the SGs' experiences in managing diverse stakeholders' perceptions of the fundraising organizations.

During the focus group discussions, a much publicized and current critical event was discussed and used as an example for how different stakeholders perceived the organizations as well as the nonprofit sector in general[1]. Archival materials such as annual reports and public media press reports were used throughout our study to give input to interviews and the focus group discussion, as well as to inform our interpretation of results.

PLAN – SWEDEN	The Swedish Plan (PS) represents one of 66 countries in the Plan International federation, which was established in 1937. PS was founded in Sweden in 1997. Their focus is on children's rights and needy children around the world. Their main source of funding is individual regular donors (88%).
UNICEF – SWEDEN	The United Nations Children's Fund works for children's rights and their survival, development, and protection. UNICEF Sweden (US) focuses on fundraising, advocacy, information, and education. Their main source of funding is through regular individual donors (43%) and corporate donors (32%).
SWEDISH RED CROSS	The Swedish Red Cross (SRC) is one out of 186 country organizations that have agreed on a common vision as a humanitarian organization to work to relieve and prevent human suffering. SRC is a member-based organization with 262 000 members and 40 000 volunteers in Sweden. Their main sources are individual, minor donations and second-hand sales.
SOS CHILDREN'S VILLAGES – SWEDEN	SOS Children's Villages, with 132 member countries, is the world's largest charity for orphans, founded in Austria in 1949. SOS Sweden was established in 1972 to contribute to the global mission; 81% of funding comes from minor donations and 16% from corporate entities.
THE SWEDISH CANCER SOCIETY	Established in Sweden in 1951, The Swedish Cancer Society (SCS) is the only organization with a purely Swedish focus. SCS's mission is to prevent and cure cancer through funding long-term cancer research, as well as facilitating short-term improvement through advocacy and knowledge transfer. Their main sources of funding are through legacies (42%) and minor individual donations.

Table 2. The Five Fundraiser Case Organizations

1 A much-publicized scandal broke during the spring of 2009 and involved large-scale fraud by a former fundraising manager who had worked at two of the case organizations. The manager was sentenced to five years in prison and was ordered to pay 16 MSEK in punitive damages in 2010.

Balancing identity and image amongst stakeholders

According to the interviews with the SGs, nine stakeholder groups were identified as being held in common for the five fundraising organizations. Some stakeholder groups were clearly internal or external, and some existed within the intersection of these two domains. Though the identification of stakeholder groups was homogeneous, the power, urgency, and legitimacy attributed varied to some degree among the organizations.

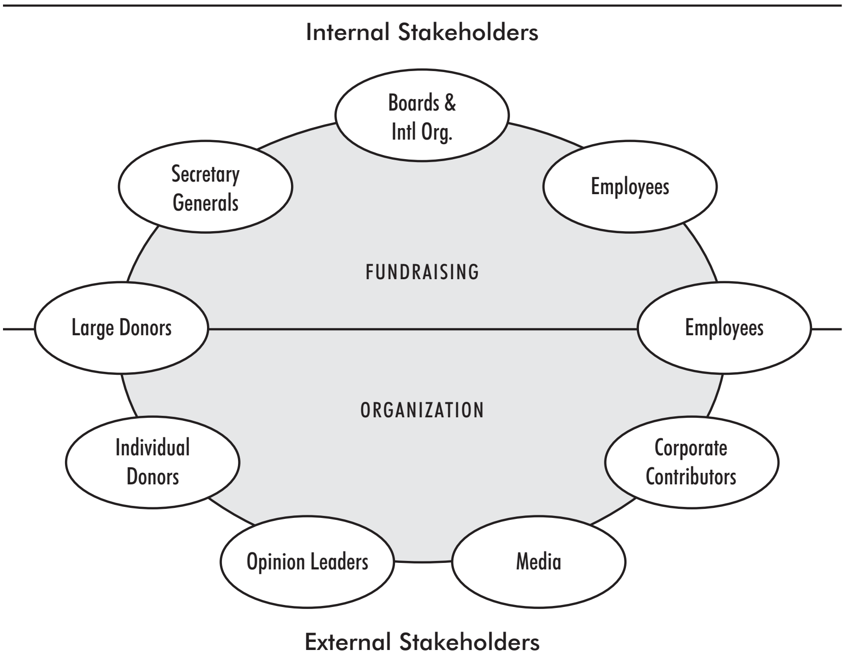

Figure 1. Major Stakeholder Groups

SECRETARY GENERALS EXPRESS AMBIGUITY

SGs identified themselves as an internal stakeholder and discussed their ambivalence to corporatization: *'We, the professional fundraisers are the [furthest] away from traditional nonprofit organizations'*, yet, '*When it comes to fundraising, this is much closer to a commercial business. Fundraising is business-driven; in other words, it is a business. It is about making profits'*. Furthermore, *'We are in competition with other fundraising organizations [over] media coverage, space, members, money, and attention'*.

In all interviews, SGs used words such as 'business', 'results', 'efficiency', 'market' and 'competition', yet expressed concern over what they all accepted and considered a move towards a more corporate-oriented way of working. While most SGs accepted this, they also expressed concern about the nonprofits' mission and purpose and how they were perceived by more mission-oriented stakeholders. Concerns were expressed in this way; *'I'm afraid of losing the soul of our nonprofit'; 'We have a complementary role to the rest of society's institutions', 'To be a channel for people's engagement and wish [to do] good'*, and *'The challenge is to continuously balance and develop the organization in terms of strategy and actions, and simultaneously handle different demands amongst stakeholders'.*

Secretary Generals clearly experience a tension between on one hand running an organization and conducting operations in an effective and efficient manner in a setting in which transparency has become more important, and on the other hand advocating the value-based mission of the nonprofit organization.

MANAGING THE EXPECTATIONS OF BOARD MEMBERS AND HEADQUARTER ORGANIZATIONS

Another important internal stakeholder group is the fundraisers' boards or international headquarter organizations. Each of the Swedish fundraising organizations had a board, though these varied considerably in terms of size, structure and decision-making mandate. Historically, the fundraising organization's registered 'members' – similar to shareholders in stock-listed companies – in each organization have had the ultimate decision-making influence, and the General Assembly was where most important decisions were made: *'When creating the Swedish association, it was expected that we should live up to the classical Swedish[democratic] model for this type of organization'.* For the Red Cross and Save the Children, this was to a large extent still the case. In the other three organizations, board and international headquarter organizations had become more influential, and though most board members were from other nonprofits or public bodies or were politicians who themselves lacked corporate experience, SGs expressed the perception that board members sought to work in a manner more closely aligned to how they believed a corporate board worked. As it was common that numerous board members sat on a number of nonprofit boards, SGs also reported that another significant challenge was getting board members to understand which 'hat' they should be wearing when making decisions. *'Having other fundraisers on the board can be a potential conflict of interest, as we might be competing for the same money'*. Thus, the original role of the board, as being cause- or mission-driven to make member-based decisions, seems to have been challenged. SGs report dual expectations of having professional boards comprising members with legitimate nonprofit experience. A professional board was largely associated with the image and workings of a for-profit board.

EMPLOYEES SEE NEW CAREER PATHS

All of the case organizations had salaried employees in charge of overseeing daily operations. These employees were divided into those with a commercial background in sales and marketing and those working on programs of more mission-oriented tasks. A majority of employees had university educations or were specialists with little or limited corporate experience. Those focused on mission-oriented tasks were particularly sensitive to how management expressed the organization's mission in terms of determining the best course of action and top priorities. From a managerial perspective, SGs expressed a need for a more flexible approach when leading, motivating, and managing the different groups of employees in pursuing common goals and priorities when some were focused on business-like goals and others on mission goals: *'We are not only a fundraiser; we are a hybrid also focusing on our cause'*. It was argued that one of the most important challenges for SGs was to manage such heterogeneously focused groups. *'We are more open to employ people with different backgrounds today, which contributes to different cultures'; 'Sometimes it is difficult with two different cultures, but mostly they meet in the organization's overall mission and goals'*. As internal stakeholders, employees were considered key in the development of the nonprofits' identity. The last decade had witnessed increased competition with for-profits for new recruits: *'We have to be competitive; the alternative for our employees is a job in the for-profit or public sector'*. According to SGs, this market-force change involving competition in recruiting top talent was regarded as influential in the corporatization of the nonprofit sector. The fundraising organization had opened up new opportunities for employment. One clearly identified group of employees were those attracted more generally to the field of 'sustainability' and those seeking more 'meaningful' jobs. This redefined interest had in the past rested with the specialists working primarily in the nonprofit sector, more specifically in philanthropy, advocacy or a particular cause. The exchange of employees among different sectors in Sweden – for instance, between the nonprofit, private, and public sectors – has increased the number of opportunities for employees but has also blurred the boundaries across sectors regarding which image is projected.

THE VOLUNTEER ROLE UNDER PRESSURE

Historically, Swedish nonprofits have been democratic, membership-based organizations with local and regional representation influencing national strategy. Volunteers had been involved in operational work, and they had roles related to the organizational mission and raised funds locally. Today, all large fundraisers have developed professional fundraising departments, resulting in the decreased role of volunteers.

> I have collaborators who think they have too little power to influence, and that everyone should be involved in the strategic planning.

Though volunteers' importance in terms of fundraising had diminished over time, they were still deemed as important and influential stakeholders. Volunteers played a particularly important role in helping to raise awareness of the organization's mission and work around the country; however, they also represented a management challenge in comparison to traditional employees: *'We have to manage and involve…volunteers without the usual…tools you have in a company'*. Thus, in the larger fundraising organizations, the role of volunteers in fundraising was diminishing and they were increasingly being replaced by salaried employees in the fundraising and marketing/communication departments. Some of the newer organizations did not even have volunteers as a part of their initial setup. Tension between the image of pro bono work fundamentally associated with nonprofit organizations often created to advocate for or highlight a certain cause, and the emergence of highly professional fundraising organizations was identified as an increasingly important challenge for SGs.

DONORS' DIFFERENTIATION BY SIZE OF DONATION

The term 'donors' was used as a general description of two major external stakeholders: individual small donors, which were categorized as external; and the individual larger donors who were almost considered to exist at the intersection of internal and external[2]. The importance of donors as a stakeholder group is emphasized in the following: *'To keep the confidence of our donors is the greatest challenge'*. All five nonprofits noted that most of their fundraising efforts focused on individual, smaller donors, so this category was of fundamental importance to the nonprofit's image and reputation. SGs explained that the traditional Swedish welfare state and publicly financed social programs had historically resulted in relatively few independent nonprofit organizations. During the last decade, however, nonprofits had taken over more of what had previously been publicly funded initiatives, resulting in increased individual donations. With these increases, a growing focus on transparency and accountability began to take hold. SGs gave examples of this scrutiny: *'How can you guarantee that children will be vaccinated?'* and '*During our last activity, we had a web chat, and the most common questions were about the salary of the Secretary General and…our administration costs'*. SGs also expressed a significant challenge in communicating the cost structure and encouraging donors to focus on outcomes rather than costs: *'There is a fear in our business that if we tell people the actual costs of fundraising and running a professional organization, a lot of donors will disappear'; 'The more professional we get, the more we are dissociating ourselves from the donor'*.

The emergence of the category of larger individual donors (i.e., those donating very large sums on a single occasion) was a relatively new challenge to the Swedish nonprofits. SGs discussed the challenge of managing the increased assumed influence of very large individual donors on 'earmarked funds', and on procedures and general praxis within the organization: *'It is a completely different business to address larger donors'*. These donors were considered as different from smaller individual donors, having less operative influence on the nonprofit organization, whereas there was a greater risk that the individual larger donors would attempt to leverage their resources to exert power: '*In exchange for money, larger donors expect to influence the allocation and sometimes even our strategy'*. SGs discussed the challenge of attracting larger donations without compromising on the mission or long-term strategy of the organization. A vital challenge thus reported by SGs was maintaining control regarding elements of organizational strategies and operations when eliciting donations. Transparency was a challenge, as the donor focus tended to be on the proportional focus on cost for certain activities, rather than on the projected long-term impact. Another

2 Legacies constituted a particularly important and unique category for the Swedish Cancer Society, but since this only related to one organization, it is not discussed here.

relatively recent trend was that some people with a focus on the mission or cause had begun establishing their own foundations rather than donating to the established fundraising organizations focusing on the issue. In this way, their own reputation was a guarantee of sorts that donations made would go to the cause in question, but such an approach could also be a way of building or strengthening their own personal image and reputation as benefactors in society. Interestingly, according to SGs, the legal transparency requirements imposed on foundations are less rigorous than those that a professional fundraising organization must comply with, according to the Swedish sector called the '90-account [colloquial expression for wire accounts of NGOs] where at maximum 25 per cent of donations can be used for the fundraising organization's operational costs (a minimum of 75 per cent must go to the actual cause).

CORPORATE CONTRIBUTORS: DONORS OR SPONSORS?

Another group of external stakeholders, corporate contributors, were categorized as both donors and sponsors depending on the context. Since donations made by companies are not tax-deductible in Sweden, corporate sponsorships (defined as donations involving some form of reciprocity) account for less than 5 per cent of nonprofits' total donations (SFI 2009). Instead, the more commercial form of reciprocal sponsorship involved funds going to the nonprofit in exchange for some sort of tangible benefit, such as, for instance, brand exposure for the contributing company, increased sales, product or company knowledge, or the added reputational effect of being linked with a 'good' cause. Increased corporate social responsibility (CSR) efforts and social entrepreneurship had also been beneficial to nonprofits, with fundraising organizations assuming various roles on a continuum from passive receiver to close inter-organizational collaboration partner. In the interviews, a mostly positive attitude towards companies was displayed. *'When working with companies, they express surprise over their experience [and] that we are more professional, commercial, and flexible than they expected, which we [the SGs] think is positive'* and *'We have salespeople approaching companies; this is no different…to what they do in a for-profit.'* But SGs also expressed concerns about the sincerity of the interest expressed by companies: *'They [the companies] claim to be open, ethical, and transparent, but we really need to live up to that', 'Within the companies, [these are mere] words', 'the good talk',* and *'Why are companies reducing their contributions when tough times come?'.* SGs also discussed what appropriate collaboration was and which products or companies they could, or could not, associate themselves with. Challenges included whether or not corporate collaborations could have an influence on the fundraising organization's image and could thus elicit reactions from other stakeholders such as individual donors and opinion leaders who were sensitive to corporate contributions: *'Our collaboration with a large multinational raises the discussion [of] how far we can go in commercialization. Sweden is a rather sensitive country when it comes to collaborations with companies'.* More recently, SGs reported that there was a clear trend towards linking contributional sponsorship with a fundraising organization, e.g., a certain percentage of the price of each unit of a company's product purchased goes directly to the fundraising organization. A clear challenge was to balance the short-term support with the long-term impact of the relationship or sponsor agreement. Choosing the right partnerships was described as a delicate process, and SGs have to be able to justify the decision to other stakeholders.

PUBLIC MEDIA IN DUAL ROLES

Public media organizations were identified as an external stakeholder of growing importance, according to SGs. This group included print, web and broadcast media. Challenges discussed involved increased scrutiny from the media, the difficulty of understanding the operations from the outside, improving nonprofits' communication around how they work, and the increased resources needed to address the media-related concerns of internal and external stakeholders. The delicate balancing act of conveying the organization's mission in a comprehensive manner while simultaneously justifying costs and expenditures was identified as a key challenge: *'That it costs money to raise money and that a new campaign demands a lot of work is very important to understand', 'We are continuously working to increase effectiveness and decrease our costs',* and *'The Swedes donated 5 billion this year – but the demand for reports on results increase'.* The increased media attention had also had the effect of imposing greater demands for accessibility and preparedness to meet media. One SG expressed, *'The…respect from the media [we previously had] is gone; they demand exactly the same from us as from companies',* and *'[Before,] the NGOs were untouchable, but that's gone'.* The trend of nonprofit accountability and transparency was mostly welcomed by the SGs; however, they expressed that it demanded new skills and areas of competence on the part of SGs. In addition to the role of focusing scrutiny on fundraising organizations, the media also employed the nonprofits as a source for legitimacy and background knowledge used to criticize politicians or public bodies when questioning decreasing public funds in social spending. Thus, for SGs, the dual aspect of being scrutinized and criticized, while simultaneously being used as a legitimate source of information, was sometimes problematic. The SGs identified a disconnect between the eagerness displayed by media to highlight the organizations when advocating for the mission and positive outcomes achieved, and the heightened scrutiny the media imposed at other times. Moreover, though the media expected nonprofit organizations to be different from for-profit organizations, the scrutiny directed at the nonprofits from the media often closely resembled the scrutiny they applied to commercial companies.

OPINION LEADERS AND INSTITUTIONAL DECISION-MAKERS

All SGs interviewed managed organizations where fundraising was the main tool used to raise money for their cause. For most organizations, advocacy and lobbying was an important part of SGs' focus, and the message was overwhelmingly focused on the mission. Therefore, opinion leaders and decision-makers were important external stakeholders. These stakeholders lobbied politicians to support pushing a particular bill through the parliament, or persuading a minister to initiate an investigation or prepare legal changes, speaking with public bodies such as The National Board of Health and Welfare to influence priorities and guidelines in the medical area, or seeking help from the Swedish International Development Cooperation Agency (SIDA) to obtain financing for programs in the developing world. SGs discussed how *'the politicians are more and more aware of us'* and *'[for] a couple of years, [we have been] increasing our focus on advocacy towards major decision-makers'*. The leading opinion leaders within the nonprofit sector are often the same relatively small group of people; they often collaborate with one another or sit on the same boards, which was why nonprofits reported that at times they addressed the opinion leaders collectively to build a stronger case. At other times opinion leaders were addressed independently when the fundraisers were in competition with each other. The SGs, as well as other leading experts from the fundraising organizations, were also more frequently used as opinion leaders themselves as their communication-related strategic skills evolved.

Discussion

Fundraising funds in Sweden have grown in the past decade in part due to professionalized marketing campaigns and internal organizational efficiency, yet the reactions from external stakeholders on campaigns and activities associated with 'corporatization' have been conflicting. On the one hand, stakeholders such as individual donors, companies and the media have pushed for more transparency, efficiency and comparison to the business world. On the other hand, minor donors, board members and opinion leaders are stakeholders who expected the focus to be on the cause and/or mission. In addition, stakeholders such as employees and the media had dual expectations depending on the context. With the media taking a larger interest in the corporatization of the fundraising sector, their focus influenced stakeholders' image of the organization, as well as of the fundraising sector as a whole. Two salient identities – characterized by corporatization and mission – surrounding the way they work and the purpose of their work caused tension not only in the relationship with stakeholders, but also in terms of how the SGs managed their own multiple, sometimes conflicting identities when interacting with different groups (Tajfel and Turner 1985) or within the roles they enacted (James 1918). As Ashford and Mael (1989) note, it is not having multiple identities *per se* that causes conflict; rather, it is when values, beliefs, norms and demands inherent in the different identities are opposing that tension may arise. In the rather small Swedish sector, SGs' challenge is to manage the conflicting identities amidst a dense yet often disparate stakeholder network. Rowley (1997) argues that network density influences a more coherent image amongst stakeholders, yet we find that though the Swedish network is dense, different salient stakeholders had different views on corporatization and mission expectations. Furthermore, the groups had different claims to power, urgency and legitimacy. In Mitchell et al.'s (1997) terms, larger donors and corporate contributors had significant power and urgency in terms of coercive, utilitarian and normative means, while smaller, individual donors, the public media and opinion leaders had significant legitimacy claims. For Secretaries General, power and urgency claims may take precedence in the short term, while legitimacy claims will have long-term implications for nonprofit sustainability.

Though institutional changes towards the inevitably increased corporatization of nonprofits continues (Hwang and Powell 2009), the tensions inherent in managing such diverse and contradictory stakeholder images will continue to challenge fundraising organizations. Opposing stakeholder images, both purposely projected and assumed, along with stakeholder groups' varying levels of power, urgency and legitimacy are not strategically sustainable. They cause organizational ambiguity and lack of coherence in strategies and communication.

Nonprofit organizations such as fundraising organizations were a fruitful empirical setting to study multiple organizational identities. On the one hand, the organizations are mission- or cause-oriented; on the other, they are dependent on donations to survive. There is an issue of nomenclature that may negatively impact the clarity of this discussion, as 'fundraising' is not a commonly used term in Swedish in the ideal, civil, or nonprofit sectors. Though the term 'fundraising' is more commonly used in English and comes with a certain expected focus on corporatization or marketization, in Swedish, fundraising organizations are categorized as being part of the ideal sector, which connotes more of a mission- or cause-based identity.

Though SGs were very cognizant of having to manage multiple identities among numerous stakeholder groups with diverse expectations, they seemed resigned to the tension and rather projected different foci to different stakeholders. The more salient stakeholders in terms of power and urgency were forcing SGs to focus more on corporatization and less on the cause or mission. Perhaps the more problematic issue to be raised is to reflect on what is being lost, and by whom, when nonprofits such as fundraising organizations become more like for-profits.

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CHAPTER 11

Swedish institutional investors as large stake owners

Enhancing sustainable stakeholder capitalism

SOPHIE NACHEMSON-EKWALL

Introduction

This chapter focuses on the special role domestic institutional capital, collected in pension, state and private, and retail funds, might play as owners on the stock markets and how these, when seen as long-term engaged stakeholders, might contribute to building sustainable business models (Eccles et al. 2011; Gore and Blood 2012).

Institutional investors have emerged as the most important investor category in globalized capital markets, accounting for 40 per cent of the listed shares (OECD 2013). The value of long-term committed institutional capital has as a result become a central topic within both the corporate governance paradigm (Mayer 2012) and the sustainability discourse, with a number of calls for responsible engagement coming from international bodies.

Sweden is used as a case study. Strand and Freeman (2015) claim that Scandinavian companies are exceptionally skilled at implementing value-creating sustainable strategies based on cooperation with their stakeholders, and in the process creating a cooperative advantage. Here it is added that the Swedish shareholder-friendly corporate governance system enables owners to play a more active role as governors than is usually possible in other countries. Historically, however, regulations and norms have generally prevented domestic institutional investors from engaging more actively, as has been discussed in a number of policy reports highlighting concerns with the lack of long-term and committed institutional capital to small and mid-sized Swedish enterprises, or SMEs (Nasdaq OMX Stockholm 2013/2016; EU Commission Research and Innovation 2013; Confederation of Swedish Industries 2014: Nachemson-Ekwall

2016). At the same time, the role of Swedish institutional investors as stakeholders remains significantly under-researched.

This chapter aims to address and help to fill in this gap in the research. It is here suggested that if Swedish institutional investors develop and implement new policies pertaining to larger-stake investments, it could change the role these investors play in supporting companies' long-term strategies, while simultaneously bolstering their sustainability efforts. To understand this potential change, however, the meaning of long-termism and sustainability must be clarified.

Long-term capital is here defined as financial assets that are invested with a long-term horizon related to absolute return metrics connected to GDP growth. Access to this capital is important for a number of reasons:

- It supports investments and risk-taking. As such, long-term ownership matters for corporate value creation (Mayer 2013; Bolton and Samana 2013);
- It grants management the latitude to engage in the strategic work necessary to develop and maintain sustainable business models (Gore and Blood 2012); and,
- It supports the corporation's collaboration with the larger society by enabling stakeholders to play a role in the development of environmental, social and corporate governance, or ESG, standards and practices (Porter and Kramer 2012; Strand et al. 2014).

Sustainability is a multifaceted concept that involves ESG and institutional arrangements. As a result, sustainability can have a number of meanings depending on the context (Halme et al. 2009). Here I refrain from addressing the definition of sustainability *per se*; rather, the focus is on how a corporate governance system can support collaboration among stakeholders who wield influence over decisions that determine whether corporate value creation can be economically sustainable (for shareholders) and contribute to sustainability (in the interest of the larger society). As such, this chapter will consider how the design of a governance system might support or hinder the engagement of institutional investors as responsible long-term owners.

The chapter highlights the fact that Swedish institutional investors are deeply embedded in the country's welfare system. As a group, they constitute over

20 per cent of the ownership on the stock market. Yet domestic regulation and prevailing norms related to portfolio asset management have long prevented them from having a significant degree of involvement as corporate governors. Consequently, their potential role as long-term owners has been overlooked (Hellman 2005; Kallifatides, Nachemson-Ekwall and Sjöstrand 2010).

Drawing on novel research by Nachemson-Ekwall related to investments by 18 large domestic institutional investors, it is here suggested that Swedish institutional investors have embarked on a process of refocusing their domestic equity investment mandates since 2010, moving away from strategies that more or less amount to index tracking and towards strategies designed to commit more capital to larger-stake investments on the Stockholm stock exchange.

In-depth interviews with 40 institutional investment stakeholders reveal that these more focused investments are beginning to be evaluated with a longer time horizon, tracking absolute performance in line with GDP growth. The interviewees claim that this approach enhances returns and increases engagement, while at the same time leveraging the Swedish shareholder-friendly governance model and supporting corporations' commitments to sustainable investments.

To further our understanding of the drivers of this possible change, I devise a model of the Swedish version of the Nordic governance system by drawing on a number of research traditions.

Firstly, I look at the value of stable long-term owners within the corporate governance paradigm (Mayer 2013; Thomsen and Hansmann 2016). Nordic company law grants special treatment to large owners (Lekvall 2014). This view of the value of owners is complemented by research assessing stakeholder engagement in corporate governance as a means of limiting influence from owners that may tend to focus narrowly on maximizing (short-term) shareholder value (Stout 2013; Bolton and Samana 2013).

Secondly, I draw on a growing literature refuting a number of long-established concepts within the finance theory paradigm related to asset return, value creation and the role of fiduciary investors. This includes questioning the efficient market hypothesis (Kay 2012) and abandoning diversification and relative index tracking as an investment strategy (de Graaf and Johnson 2009; Petajisto 2013). Instead, the focus is placed on moving in the direction of engaged fund management, through which domestic long-term investment strategies become increasingly attractive.

Thirdly, I combine stakeholder theory (Freeman 1984) with governance research on institutional embeddedness (Aguilera and Jackson 2003). Scandinavian countries have developed a unique system of stakeholder capitalism wherein power over the business sector has long been shared among owners/managers, unionized employees and the state, making the Scandinavians an ideal model for Western coordinated market economies (Thomsen and Conyon 2012). However, with increased focus on shareholders and liquid capital markets, the degree of stakeholder cohesion has diminished over time (Andersson 2015).

The remainder of the chapter is structured as follows. First, I elaborate on three research traditions that, taken together, have long formed the basis of Swedish norms and regulations pertaining to the activities of institutional investors on the domestic stock market. Thereafter follows a description of the data describing Swedish institutional investors as stakeholders and their changing investment policies. I then suggest a reconceptualization of the role of Swedish institutional investors as long-term engaged owners in cooperation with other owners. In my concluding remarks, I argue that the inclusion of Swedish institutional investors as an additional owner group will revitalize and strengthen the Strand and Freeman (2015) discourse of Swedish stakeholder society, and in the process, support the re-creation of a cooperative advantage.

Firstly: Owners as stakeholder

Neoclassical economic theory assumes that firms maximize profits for their shareholder-owners. According to the stakeholder model, however, firms maximize value for all stakeholders. Both models have their own strengths and weaknesses, and these depend to a large extent upon the role assigned to owners in different jurisdictions. At the same time, large (and small) shareholders might either be very much involved in governance or not. Also, in both systems the degree of long-term commitment by key owners has often proven difficult to maintain over time.

Adam Smith (1776) highlighted the difficulty of striking the right balance between different shareholder groups and management after a founder leaves the scene. This is the simple agency conflict, wherein managers tend to position themselves as operating in a manner that is distinct from the influence of distant and anonymous shareholders, particularly in the standard conceptualization of the US Berle-Means firm (Berle and Means 1932; Fama and Jensen 1983).

To enhance management's engagement in value creation, many countries have protective measures in place to support long-term engagement, such as defences against takeover and standard practices to assure management/board independence (Mayer 2015). In governance systems where controlling shareholders have been assigned special legal rights (i.e., through favourable taxes or voting privileges) the agency conflict has not been resolved, but rather, has merely changed its constituent parties to impact the relationships between different shareholder groups (Burkart, Gromb and Panunzi 1997). This might result in a large shareholder diverting resources in favor of its own best interests (Gilson and Black 1995); or a minority shareholder might ride on the coat tails of a larger shareholder (Grossman and Hart 1980).

These owner conflicts are based upon a commonplace dilemma – the inability to strike the right balance between the interests and motives of short-term and long-term owners. A narrow focus on shareholder value might press a company in the direction of short-term decision-making (Jackson and Petraki 2011). Here short-termism is defined in the simplest manner as the innately myopic human preference for material gains today rather than in the future, even if the risk is the same (Haldane and Davies 2011). Such a narrow interpretation of shareholder value puts long-term (and hence, sustainable) value creation at a disadvantage, as it limits the amount of attention that management can pay to long-term investing (Stout 2013), as well as downplaying the company's contribution to social activities that promote an inclusive and cohesive capitalism (Jackson 2008; Jackson and Petraki 2011).

Within the corporate governance paradigm, the classic stakeholder proposition focuses on the company as a whole. Figure 1 illustrates how in order to create value, management must appeal simultaneously to customers, suppliers, employees, financiers, communities and managers (Freeman 1984). The classic stakeholder proposition is often criticized for a lack of clarity in terms of whose interests management should prioritize. Stakeholders, including owners, might have contradictory goals, and management's competing priorities are often difficult to evaluate and manage.

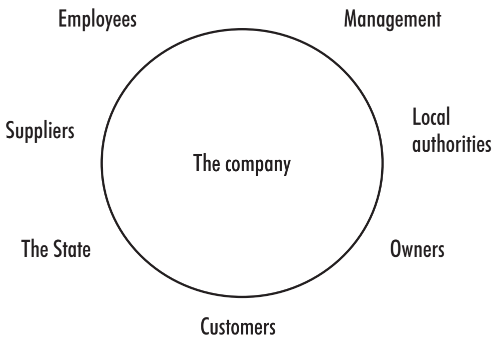


Figure 1: Freeman's stakeholder model (1984)

The way shareholder and stakeholder models are dealt with also differs in corporate governance systems around the world. In Germany, labour plays a central role; in France and Japan, the state has an elevated position; and in the US, the board's work is often reinterpreted as being supported by a charter from society, i.e. the 'license to operate' (Crane et al. 2014). In the UK, shareholders wield a great deal of power, but large shareholders do not control the board of directors. In countries that favour active engagement on the part of large shareholders, such as in the Scandinavian countries, domestic institutional investors are often subject to regulations that prevent them from becoming overly active (Pålsson 2012).

The original definition of a stakeholder was set forth by the Swedish management scholar Eric Rhenman in the 1960s. Rhenman allotted (Swedish) owners a special role as a stakeholder, legally supported by statutes, as well as conceding to a narrow profit maximization purpose of the firm (Carlsson 2013: 373–375). Rhenman's conception of the stakeholder model did not include different owner categories (the ideal owner was depicted as being a family, foundation or investment/holding company), nor did it consider investors' varying investment horizons.

However, following the move that began in the 1980s towards liberalization of Western economies in the direction of free market capital flows, the stakeholder proposition was abandoned in favor of a shareholder value focus, leaving more room for influence to be exerted by both passive and short-term oriented investors.

Sweden was in some ways more affected by this trend towards market liberalization than were other countries. The country has seen the rise of both an active takeover market – second only to the UK – and problems related to a lack of committed owners on the stock market (Henrekson and Jakobsson 2012; Nachemson-Ekwall 2012). At the same time, Swedish institutional investors have behaved as mainstream, disengaged institutional investors, pressing for buybacks and dividend payouts, as well as acting as sellers in bid situations (Hellman 2005; Kallifatides et al. 2010; Nachemson-Ekwall 2012). In this power vacuum, control has been transferred to private equity, foreigners (Henrekson and Jakobsson 2012) and activist hedge-fund investors (Kallifatides et al. 2010). As such, Sweden has experienced the same shortage of long-term committed capital as has been seen in a number of other European countries (EIOPA 2013; Nasdaq OMX 2016).

In summary, governance systems have generally not been designed to deal with domestic institutional investors as a specific owner category. As a result, a governance framework that favors stakeholder-engagement of shareowners will, in a country that embraces a liberalized free market economy, represent an easy target for influence from investors that might have interests that diverge from the corporation's strategy, including a diverging investment horizon. That makes those Swedish listed companies that lack long-term committed owners very responsive to the interests of institutional investors, with no consideration as to whether they are passive, short-term oriented or very active proponents of shareholder value.

The sustainable economic value of domestic institutional investors is discussed next.

Secondly: Domestic institutional investors as asset managers

The emergence of institutional investors with assets from citizen-savers and future retirees is deeply intertwined with the discourse of finance theory and the efficient market hypothesis (Fama 1965). Asset managers' logic of diversification relies upon mechanisms for monitoring portfolio performance relative to their peers, and this benchmark-driven approach to investment runs counter to the active exercise of governance rights.

Problems stemming from institutional investors acting more or less in the manner of passive governors have been identified in many countries, as discussed in a number of studies (Ambachtsheer and Bauer 2013; Tilba and

McNulty 2013). This behavior is due to factors such as complex regulations (Stewart and Yermo 2008); short-term evaluation metrics that promote value destructive index tracking and herding (Jackson and Petraki 2008); a preference for exit over voice despite an increasing concentration of stakes (Jackson 2008); and organizational structures that limit activities to intermediaries (Hellman 2005; Tilba and McNulty 2013). Alternatively, they may simply be a reflection of the rational choice of free-riding (Grossman and Hart 1980).

In the post-financial crisis era, the idea of index tracking built on rational portfolio diversification has been further challenged. British economist John Kay (2012) writes that this investment style runs counter to societal interests, as most clients, not least pension fund members, don't seek relative returns but rather are more interested in long-term absolute returns, which moves benchmark metrics more closely in line with overall GDP growth.

The real value of diversification and stock picking with the aim of beating the index, measured as annual returns to investors, can also be questioned. Studies show that most so-called active portfolios are at the most semi-active, costing money but adding little or no value (Ibbotson 2010; Rappaport 2012: 211). Studies also show full diversification can be reached with as few as 10 to 15 stocks, provided these are carefully chosen (Archer and Evans 1968). A more random selection results in 30 or 40 stocks (Statman 1987). Petajisto (2013) has studied how focused, highly concentrated funds outperform broadly diversified funds.

An additional issue relates to liquidity. There is a tradeoff between long-term engagement and trading where liquidity becomes harmful to voice, as it can lead to the adoption of a cut-and-run strategy (Coffee 1991). What's more, liquidity increases the focus on market capitalization, where large institutional investors typically prefer large companies, which effectively locks out investments in smaller companies. Changing the evaluation metrics employed would thus facilitate long-term investing and larger stake formation rather than passive diversification models.

Here I turn to issues related to the value of domestic capital. As noted, Western policymakers have had a propensity to advocate rational finance theory when organizing free markets. This paradigm claims that capital will flow freely across borders in search of the highest return. According to this view, the availability of domestic capital is irrelevant. The effect of regulation and tax systems can be disregarded, as capital is available on the scale of the global market. A possible shortage of domestic long-term and short-term capital will be fully offset by foreign capital.

But in reality, this appears not to be the case. Some companies will have difficulty attracting foreign investors, such as start-ups and family firms that are planning expansion or a change in ownership. These models do not account for the value of access to stable, long-term capital as management focuses on the strategic work necessary to devise sustainable and profitable business models (Gore and Blood 2012).

Novel research combining corporate governance with finance theory seems instead to suggest that capital is not neutral in a way that economists traditionally have interpreted as being economically rational. Rather, financial capital is invested in different ways with varying preferences related to chosen investment horizons. This research highlights that globalized and passive capital flows are often limited in their preferences (e.g., more interested in financing a fast-growing, high-tech start-up than a local dairy farmer); tend to invest with shorter-term investment horizons in the sense that they are designed for transactions (through different fund structures); and might even be value-destructive (e.g., preferring cash flow-strong companies rather than risky R&D endeavours or building a large factory, and as a consequence, reducing long-term focus on sustainability and value-creative growth).

This research underscores that domestic capital features an investment rationale that goes against classic finance theory. Institutional investors typically allocate between 30 and 50 per cent of their equity portfolio to domestic stocks. Consequently, despite the theoretical merits of global diversification, investing in the home market (i.e., home bias) continues and is supported by claimed benefits such as better information, lower asset management costs and lower transaction costs (Coval and Moskowitz 1999; Dahlquist et al. 2003; Ferreira and Matos 2008).

Summing up the second research strain addressed here, there is widespread agreement that long-term capital promotes value creation that is in the interest of society. Yet, financial theory has limits in its approach to capital as a rationally allocated resource. In practice, domestic capital is more likely to be invested in the long term in the investor's home market, explained by rational decision-making models. Since neither shareholder nor stakeholder propositions appear to offer a clear answer on how to create corporate value (in the long term), it appears that long-termism among domestic investors is an important signum among all categories of owners. Consequently, national policies that hinder domestic capital formation through the tax system or regulation risk creating a shortage of long-term engaged capital.

To bridge this gap, it is here proposed to look to institutional theorists to explain how corporate governance systems might be shaped by social embeddedness (Granovetter 1985). With this view, actors and their goals are not regarded as a given; they tend to be mediated through agency and to be complexly constructed by the positions upheld in society (Aguilera and Jackson 2003; Gilson 2006). The most important question, then, is how a particular category of actor – such as institutional investors – interprets and enacts its responsibilities as fiduciaries for policyholders and the ultimate beneficiaries (Kallifatides and Nachemson-Ekwall 2016). With this in mind, we turn to the Swedish institutional stakeholder setting.

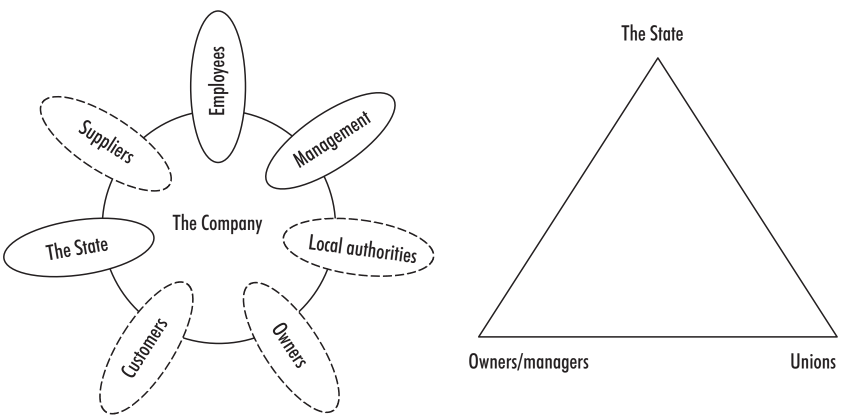
Thirdly: The cooperative Swedish stakeholder society

The Scandinavian stakeholder model represents a special form of corporate governance. A long tradition of social democratic governments, strengthened through a large tax-financed public sector, has produced egalitarian, high-trust societies (Sinani et al. 2008). These build on welfare states, concentrated ownership, strong labour unions, employee representation on the board, high taxes limiting private wealth creation, and modest executive pay, along with gender equality. The Nordic countries stand out as global leaders in social governance (Thomsen and Conyon 2014: 286). All Scandinavian countries score high on 'triple bottom line' metrics that combine economic, social and environmental factors (Strand et al. 2015).

Using Scandinavia as a model, Strand and Freeman (2015) highlight three fundamental ideas necessary to make 'stakeholderism' work: jointness of interest, a cooperative strategic posture, and a rejection of the narrow economic view of the firm.

Here we hark back to the initial ideas of the stakeholder proposition as it was formulated in the 1960s. Carlsson (2013) writes that the original purpose of Eric Rhenman was not to invite all stakeholders to participate as corporate partners. Rather, the model was developed for the Swedish Employers Industries Association (today the Confederation of Swedish Industries), as a means of limiting the political movement then underway towards socialization of Swedish industry in the interest of one particular stakeholder, the labour unions. Rhenman (1964) cites organization scholars such as Chester Barnard, Herbert Simon, and Philip Selznick to argue for the view that profit maximization was not the purpose of the firm (Carlsson 2013: 373–375). The success of the Rhenman stakeholder model thus lies in its ability to mitigate, rather than eliminate, the conflict between worker unions, the state, and management (Carlsson 2013). This is illustrated through a number of building blocks in Figure 2, beginning with the classic Rhenman stakeholder model (Level 1), and then moving on to the tripartite stakeholder dialogue between unions, the state and owners (Level 2).

LEVEL 1: RHENMAN'S STAKEHOLDER MODEL | LEVEL 2: THE TRIPARTITE STAKEHOLDER DIALOGUE



LEVEL 3: AN OWNER SUPPORTIVE CORPORATE GOVERNANCE FRAMEWORK

	Families/investment companies	Institutional investors
Regulation	Companies Act grants special rights to largest shareholders	Limits on size of stakes
Voting	Supported by multiple voting stocks	Generally not expected to buy power
Board	Usually controls the chair and dominates nomination committee	Influence through participation in the nomination committee

Figure 2. The Swedish tripartite stakeholder dialogue (1964)

Long-term owners are designated a special role in this stakeholder model (as shown in Level 3). Nordic corporate governance is based on block holders, where influence is enforced through the right of the dominant owner to control the board chair, a system of differential voting rights, and the existence of a close and cooperative relationship with the unions (Angblad et al. 2001). However, there are clear differences in ownership models among the Scandinavian countries. In Denmark, control is often secured through industrial foundations, whereas Norway leans heavily toward state ownership (Thomsen and Conyon 2012). Sweden has a history of companies being controlled by families and heavy involvement by banks, working through closed-end investment funds (or CEIFs, with the Wallenberg SEB bank sphere and the Handelsbanken sphere) and crossholdings, the influence of which has diminished during the last 20 years.

Also, in Sweden, the use of multiple voting stocks is higher than in its Nordic neighbours (Henrekson and Jakobsson 2012; Lekvall 2014). This had the effect of keeping Swedish industry in the hands of stable owners, while at the same time leveraging on openness to free trade and a clear embrace of the movement in the 1980s towards liberalization of the market economy (Nachemson-Ekwall 2016).

Swedish institutional investors play a large role in the Swedish welfare state. The four Swedish National Pension Funds (SNPFs) originated through a series of pension reforms in the 1950s, when it was decided that the state should provide basic pensions for all citizens. To this was later added a layer of occupational pensions and illness-protection funds (AMF, Alecta, and AFA, as well as Folksam). In addition, four banks (Handelsbanken, Swedbank, SEB and Nordea) control the four large retail fund houses.

Scepticism towards domestic institutional involvement in the business sector has always been a political matter, with concern from the center-right political parties that corporatist and national pension funds might take over the control of enterprises and socialize private businesses. There has been a parallel concern that the four large banks that control mutual funds will act in the interest of their related ownership spheres rather than in the interest of their fiduciaries.

The agency conflict between empowered block-holders and minority shareholders (likely to be domestic institutional investors) has thus remained an important feature of Swedish corporate governance. There is a generally high level of trust between majority and minority shareholders (Gilson 2006; Sinani et al. 2008). Concerted activities among shareholders are encouraged. The influence of minority shareholders (i.e., Swedish institutional investors) is enhanced by the recent formalization of a shareholder-appointed nomination committee made up of representatives of the largest shareholders (Kallifatides et al. 2010). This model is unique in an international context.

This Swedish respect for large owners, passive support from minority institutional investors, and a healthy relationship with both the state and labour unions thus seems to have allowed Sweden to develop many highly profitable, well-run companies (Henrekson and Bergh 2013). The country's active takeover market has long symbolized the Swedish openness to restructuring and globalization. Where an implicit support from the labour unions have leaned on good unemployment schemes from both the employers and the government and the expectation of new jobs being created in more value-creative industries (Henrekson and Jakobsson 2013; Andersson 2015).

However, as previously indicated, there is a less rosy story that runs parallel to this narrative. Swedish corporate investments in R&D and machinery have fallen, industrial jobs diminished, and youth and migrant unemployment have been cemented at a high level (Andersson 2015; Nachemson-Ekwall 2016). Also, after years of high taxes, family ownership has been falling, and with domestic institutional investors continuing to act in a markedly passive manner, the opportunities for private equity, foreign industrial owners and foreign (passive and short-term) institutional investors has grown (Henrekson and Jakobsson, 2012). The Swedish capital market thus has features generally associated with 'value-destructive short-termism' (Stout 2013; Jackson and Petraki 2011). With the engagement and commitment by the 'old' families gone, it seems that the tripartite Swedish version of the Rhenman stakeholder society is losing cohesion. Societal legitimacy is disappearing. It is in this context that the possibility of a changing approach to engagement on the part of domestic institutional investors should be seen.

Summing up the third research strain: a national corporate governance model built on owners embedded in a collaborative stakeholder society has difficulty creating sustainable corporate value when passive or short-term owner rationalities come to dominate.

It is in this context that the implications of a possible shift of activities by domestic Swedish institutional investors in the direction of larger-stake owners should be considered. In the post-financial crisis era, international actors have argued in favour of prudent asset management of long-term investments, as well as for a greater emphasis on long-term commitment. Reports from OECD (2012), EIOPA (2013), and Eurofi (2014) all recommend a revision of the capital requirements of pension funds, the abandonment of market-to-market valuation of listed stocks, and the shift of index-relative evaluations to a more absolute evaluation model. The UN Principles of Responsible Investment (UNPri) emphasize more long-term investments in innovation, infrastructure and SMEs. A focus on active, long-term asset management has also been bolstered by the growing interest in sustainability and ESG factors, i.e., supporting companies that are doing business in a way that demonstrates prudent stewardship of environmental resources in the interest of future generations and considers the social needs of workers and the local community.

Empirical research: Swedish institutional investors as large-stake investors

Sweden has a high concentration of domestic institutional investors, which directly control 23 per cent of the capital on the Stockholm Stock Exchange (SSE) (Table 1). Foreign investors, the vast majority of which are institutional and keen on tracking different indices, control an additional 40 per cent, which means that universal owners own more than 60 per cent of the SSE. In 1990, the year before Sweden opened up for foreign direct investments on the stock exchange, Swedish institutional investors such as the four large Swedish National Pension Funds, life insurance companies, and mutual funds controlled 28 per cent of the SSE, and foreign investors controlled close to 8 per cent.

At the turn of the 21st century, this began to change. While mutual funds have grown from 8.5 per cent to 12 per cent, the SNPFs and life pension funds have reduced their exposure on the SSE from 6 per cent to 2.5 per cent and from 14.5 per cent to 7.5 per cent, respectively. Reregulation and the ability to invest abroad account for part of the change.[1] In addition, when the SNPFs were reformed in 2001, the Swedish stock portfolio of AP4 was split into four

1 In OECD countries this group of institutions more than doubled their total assets under management from USD 36 trillion in 2000 to USD 73.4 trillion in 2011. The group accounted for 40 % of the assets in OECD in 2011 (Celik and Isaksson 2013: 9).

equally sized funds. At the turn of the millennium, Swedbank's retail fund Robur became more diversified and European, and the four new SNPFs began to benchmark performance. As a result, Swedish institutional investors moved from an asset management style where it was common for them to control a collective 15 per cent to 20 per cent of capital in most large companies (SIS Ownership Service, 1985–2015) to portfolio diversification models and benchmarking against different indices (Hellman 2005).

However, the move into global asset diversification models has been limited. Sweden makes up around 1 per cent of the global capital market. Still, Swedish institutional investors have allocated between 10 per cent and 20 per cent of total assets under management to the SSE Nasdaq OMX, which suggests that a considerable amount of home bias continues to exist. In the life funds, stocks generally make up 40 per cent of the total assets under management. Within these stock mandates, the exposure to SSE varies between 30 per cent and 50 per cent. The mutual funds all have dedicated Swedish funds.

% Year	Corps. & Orgs.	CEIFs	Mutual funds	Life Insur	SNPF	State	House-holds	Non-profits	Foreign	Billion SEK
1986	17	13	6	14	5	2	25	10	8	**500**
1990	23	10	8	14,5	6	2	18	8	8	**545**
1995	10	7	9	13	4	3	15	8	30	**1 200**
2000	9	6	8	10	4	5	13	5	39	**4 098**
2005	11	5	12	9	3,5	4	15	5	35	**3 054**
2010	11	5	12	9	3	4	13	4	38	**3 701**
2015	14	6	12	7,5	2,5	2	11	4	40	**6 071**

Source: Adaption from Statistics Sweden (March 2016), only capital, not voting power.
CEIFs (Closed-end investment funds; Investor, Industrivärden, etc.)
SNPFs (Swedish National Pension Funds, AP1-AP4)

Table 1: Ownership on the SSE

Due to regulations, the influence of Swedish institutions has been limited. SNPF and mutual fund ownership in a company is capped at 10 per cent of shares or votes. In addition, each SNPF may only own 2 per cent of the SSE. In practice, the SNPFs have pursued diversified investment strategies that have fallen short of these limits.

Private and corporatist occupational pension funds are limited by capital requirements (i.e., solvency rules such as those stipulated through the IORP, 2003/2016). Mutual funds are, in addition to the UCITS directive, limited by a recommendation that they refrain from gaining a position of dominant influence over a company's management, generally perceived to mean 10 per cent of votes or shares (Law on investment funds 2004:46).

Also, control and engagement are often related to multiple voting stocks. No legislation prevents institutional investors from buying multiple voting stocks, but prevailing norms and rational logic prevent such an approach. Standard statutes stating that investments should only focus on economic performance have been interpreted as being inconsistent with buying less tradable stocks with high voting power.

Despite the above-stated constraints and limits, Swedish institutional investors engage in the domestic market. All publish stewardship codes, though there is no generally applicable code such as the UK Stewardship Code (FRC, 2012). Institutional investors participate in self-regulatory bodies and have roles on nomination committees (Nachemson-Ekwall 2012). All large institutional investors in Sweden have signed different international conventions and published sustainability reports and 13 are signatories of UNPri.

A few in-depth studies have been conducted to explain how Swedish institutional investors act within this regime and these limitations. Using data from the mid-1990s, Hellman (2005) finds that institutional investors do not assume active ownership because they lack the organizational capacity or design to acquire adequate knowledge about specific investee companies. Hellman finds institutional investors focus on exit behaviour because of their dependence on external advisors and their over-emphasis on quarterly (i.e., short-term) financial information.

Activities by domestic institutional investors are also influenced by a quest for societal legitimacy (Bengtsson 2005) and are happy to form coalitions with other institutional investors (Jansson 2007). They are also quick to sell during a bid, tracking relative stock performance on a short-term basis (Kallifatides et al. 2010; Nachemson-Ekwall 2012). As a result, Swedish institutional investors have not been as active as corporate governors as the Swedish governance framework would seem to allow, with governance instead often allocated to the largest owner. Instances of activism among Swedish institutional investors have been limited to a few highly publicized cases.

CHANGING INVESTMENT STYLE IN THE DIRECTION OF HOME BIAS

This combined quantitative and qualitative study indicates that there are indications that the presumed passivity of Swedish institutional investors is changing. The research covers ownership data from 25 large Swedish institutional investors on the Stockholm Stock Exchange during the period 2007–2015. Together, the group had approximately SEK 600 billion invested on the SSE, 17 per cent of the market capitalization. The numbers of investee companies were stratified on a 3 per cent ownership level, the level usually called a stake in the international governance literature, and a 5 per cent level, in line with stock exchange flagging requirements.

The study shows that almost all the domestic institutional investors have begun to take larger stakes in investee corporations on the domestic stock market. Table 2 lists the stakes taken by the 18 largest Swedish institutional investors and their investments' concentration in 2007 and 2016. There are 250 companies listed on the SSE. In 2007, Swedish institutional investors held few stakes larger than a few percentage points. Three had portfolios of around 30 or 40 stocks before this time. Following the financial crisis (2008–2010), there appears to have been a re-concentration, albeit not to the levels seen before the turn of the millennium. Of the 18 largest Swedish institutional investors on the SSE, 15 have increased their concentration. As the overall presence on the SSE has been reduced by a few percentage points (as shown in Table 1), the focus is probably higher. This includes Folksam and Skandia, both having made large investments in specific companies, the financial institutions Swedbank and Skandia AB. Two have retained a dispersed investment portfolio.

Two companies have reduced holdings: AFA and Alecta. In the case of Alecta, the investment style has been to concentrate on larger stocks, with the outcome that stakes in specific companies have gone down (as shown in Table 2). Before the turn of the millennium, Alecta held more than 60 stocks. By 2005, Alecta's portfolio had been reduced to 30 stocks. In 2015, over 98 per cent of its equity assets were allocated to 20 stocks.

2016	Owner	> 3%		> 5%		Focus?	No of stocks	Billion SEK
		2007	2016	2007	2016			
1	Swedbank Robur	57	97	29	67	+	173	171
2	Alecta	21	19	15	12	(–)	30	116
3	AMF pension & funds	8	29	5	13	+	139	116
4	SHB funds	6	47	4	19	+	269	93
5	SEB funds	20	28	6	12	+	233	70
6	Nordea funds	25	48	8	31	+	174	63
7	SNPF4	17	47	8	30	+	131	51
8	Skandia life & funds*	32	11	26	5	(–)	141	42
9	Folksam ins + KPA**	0	1	0	1	(=)	46	42
10	Didner & Gerge funds	16	17	7	12	+	64	37
11	Länsförsäkringar funds	21	22	5	16	+	192	37
12	Lannebo funds	15	43	8	36	+	88	35
13	SNPF3	3	5	0	3	+	116	31
14	SNPF1	2	3	1	3	+	28	31
15	AFA ins	24	5	13	4	–	43	29
16	SNPF2	4	8	1	6	+	134	27
17	Carnegie funds	6	14	0	8	+	56	25
18	SPP funds	"!	0	"!	0	=	71	24

Source: Aktieservice, 2007; Holdings.se 2016
* Bought Skandia AB for SEK 22.5 billion in 2011, and sold off parts of the Swedish portfolio
** Bought 10 % in Swedbank for SEK 10 billion in 2008

Table 2: The largest Swedish institutional invsestors and their stakes on the SSE

The concentration of stake holdings identified in Table 2 reveals how the allocation of capital and resources to committed and engaged stake holdings reflect a mixture of related risk mandates that are limited by quantitative regulation. These decisions are subject to the organizations' individual preferences. On the SNPFs and the life pension funds, the board of trustees decide on the long-term goal, usually based on different types of asset-liability management (ALM) studies.

Half of the SNPFs and life insurance funds have both a passive global portfolio and an active Swedish portfolio, where the latter is evaluated with long-term absolute metrics usually described as a five-year investment horizon. All mutual funds have both index mandates and active mandates with large stakes and stock picking.

There is also public documentation from institutional investors that show that they are actively moving in the direction of long-term and committed investment practises. When the health-care provider Capio was reintroduced on the SSE in June 2015, three domestic Swedish investors identified themselves as long-term, committed 'anchor' owners.[2] In addition, mutual-fund groups can increase ownership by complying with the Alternative Investment Fund Directive (AIFM 2011) or by incorporating outside Sweden. The legal entity of the Nordea mutual funds has been reallocated to Finland, where owner limitations are more liberal.

The study categorizes the most relevant factors influencing these decisions along four parameters. First, the study observes a link between an effort to enhance performance in Swedish listed equity investing and a reconsideration of a one-sided dependency on diversification policies, leaving room for focused and larger stock-picking mandates.

One SNPF explains how the board no longer believes that financial markets are wholly efficient, and as a result no longer thinks that index investing is the optimal way to manage assets. Instead, the SNPF relates the risk mandate to the fund's long-term perspective. It has built a portfolio with internal stock picking built up around engaged ownership and sustainability screening, and it reduced the number of stocks in the Swedish portfolio from 60–70 stocks in 2010 to close to 30 stocks four years later. The foreign portfolio has been reduced from 250 to 100 stocks. It also has alternative investments where it leverages on illiquidity.

The chair of one bank-controlled mutual fund that has moved from short-term relative investing that was evaluated on a monthly basis to long-term to absolute investing explains:

> The (mutual fund) industry is used to benchmarking, but it didn't bring any real value to our customers. Now we focus on creating long-term purchasing power for our customers, and to do that, we have to take larger stakes that create real value over three or five years instead.

2 These include UN Principles for Responsible Investment (PRI), United Nations Global Compact, OECD Guidelines for Multinational Enterprises various initiatives on climate change and membership of different pressure groups such as the Carbon Disclosure Project.

The study then moves on to explain how the efficacy of engagement is contingent on the ability to leverage on home bias. The companies on the SSE are perceived as being well managed, and they deliver strong performance over the long term. A head of stock equity at a life insurance company explains:

> We believe in home bias. Seventy percent of all our assets are invested in Sweden. We have 10 % in Swedish stocks. We have been around for a long time; we know our companies, engage in corporate governance and can talk to the directors. It pays off, long-term. Outside Sweden, my network is weaker. In Asia, I am a nobody.

Also, all institutional investors highlight the close interaction between domestic institutional investors in the Swedish corporate governance model. Large shareholders are expected to be engaged and to coordinate activities. Everyone knows each other. A chair can easily get in touch with the five largest domestic investors, whereas the foreign institutional investors are either disengaged or difficult to reach. The head of sustainability and governance of a bank-controlled mutual fund describes its role:

> We have been practicing governance for 20 years now. It is expected of us that we are engaged and responsible. When we make large investments, we engage (for the) long term. Sweden is in the forefront in this process.

A number of Swedish listed companies lack a controlling owner. Less than 50 per cent have multiple voting stocks, implying that any investor that buys a large stake, no matter what the intention, will gain access to the board. Almost no initial public offerings (IPOs) include multiple-voting stocks. Two of the institutional investors in this study feel that they have a role to play in the interface between the private equity owners and the stock market. They are happy to take a large stake, e.g., 7–8 per cent, in an IPO to become an 'anchor investor'. The person overseeing ownership issues at one of the SNPFs explains:

> It is a dilemma when there are IPOs done by private equity, as these companies lack a long-term, committed owner. We can buy a large stake, but we don't want to be the only large investor, because then we will be sitting with all the responsibility. But I can see situations where we are two or three institutional investors

> that buy between 5 and 10 percent each. We can have the same long-term view of the company and work together for a number of years. This has already been done in three IPOs.

A life insurance company claims to be reconsidering bringing its own directors on board. It would be a logical development with an investment policy that is both moving towards taking larger stakes and increasing demand for owner engagement. The head of asset management explains:

> Twenty years ago, institutional investors were pure financial players and could leave governance to families or investment companies. Now, when we are increasing our stakes, we have a duty to act responsibly. I don't exclude the possibility that we could be represented on the board. It's about a lot of money; it's a big responsibility and we have to build competence.

Thus, almost all the interviews with asset managers and CEOs indicate that with longer investment horizons, they view themselves as capable of acting as responsible owners on the SSE. They are keen to avoid being viewed as activists who would approach underperforming companies to instigate change and then sell at a profit. As 'engaged' investors, they would rather cooperate and support management or other shareholders.

Finally, the study shows that more concentrated mandates leverage the legitimacy embedded in a societal movement towards sustainability investing. All institutions claim to have increased attention to ESG measures, and that this contributes to long-term performance. A head of one of the bank-controlled mutual funds explains:

> When we move our investment horizon to three or five years, it is easier to integrate CSR and ESG measures. We find these companies to deliver more stable cash flow (and) have a lower risk for reputational damage; and it reduces the downside risk in our stock-picking. ESG contributes to performance.

Summing up, the interviews with the representatives of the Swedish institutional investors indicate that almost all of them are committing more capital to large stakes with the aim of enhancing performance. In the process, they develop their role as active and engaged stakeholders.

Conclusion and reflections

Strand and Freeman (2015) claim that Scandinavian companies are exceptionally good at implementing value-creating strategies by cooperating with their stakeholders. In this chapter, it is shown that Swedish institutional investors in the post-financial crisis era both have an ambition to engage as supporters of long-term value-creative strategies and have developed investment styles to support it. This is done within limits of current regulation. In the process, they position themselves as partners to other controller-owner and the board, as well as other Swedish institutional investors, thus viewing themselves as embedded in the Swedish owner society, and, consequently, as part of the cooperative governance model. It can thus be argued that more engagement by domestic Swedish institutional investors can function as an enhancer of the Swedish companies' ability to leverage Strand and Freeman's (2013) 'cooperative advantage'. It is also suggested that this move can be supported by revisiting the Rhenman stakeholder ideas, but framing them in modern sustainability metrics instead of the classic tripartite network. The focus on the 'capitalist' owner is reframed as 'capitalists and institutional investors' working in cooperation.

To further the discussion, the stakeholder discourse on institutional-investor rationale is reconceptualised using a three-phase framework (Table 3). In the first phase, broadly consisting of the period 1980–2000, the collectivisation of the Swedish capital market both took off and began to move abroad. There were institutional investments in larger stakes, but engagement remained more or less passive (Hellman 2005). Notably, sustainability and CSR did not play a role in this period.

In the second phase, broadly consisting of the period just before the turn of the millennium and up to the beginning of the post-financial-crisis era, the globalization of capital markets was refined, with the industry focusing on low-cost benchmarking, index tracking and smaller stakes in each company, an investment strategy that enhanced passivity regarding engagement in governance. With Swedish traditional block-holders leaving the scene, other ownership models emerged, such as private equity firms, foreign industrial owners and activist funds (Henrekson and Jakobsson 2012). As corporate governors on the Swedish market, institutional investors adopted an investment style resembling a model of being 'rationally reticent', i.e., leaving engagement in the hands of other short-term investors (Gilson and Gordon 2011; Kallifatides et al. 2010). Sustainability still played a limited role.

The third phase, which is the focus here, can be said to have already begun during the final stage of the financial-bubble years, but the results – in the form of an increase of larger stakes on the Swedish stock market – began to show up a few years into the post-financial crisis era. This change in investment style hinges on a reconsideration of portfolio-allocation strategies. A large-stake strategy also supports governance engagement that leverages sustainability and ESG metrics.

EVOLVING DISCOURSE OF LARGER STAKES

Actions behind larger stakes	Phase 1 ≈ 1980–2000 Home market focus	Phase 2 ≈ 1998–2010 Global diversification	Phase 3 ≈ 2010– Active & passive strategies
Domestic ownership	Large stakes in large companies	Reducing home presence. More diversification and smaller stakes	Large stakes in companies combined with a global or domestic index portfolio.
Regulation	Opening for foreign stocks in 1990. Ownership limits	Market valuation of life assets. Owner limits	Actively managing risk allocation in portfolio. Ownership limits
Evaluation method	SSE main index	Benchmarking. Annual peer comparison	Investment horizon 3–5–10 years. ESG-metrics
Governance activities	Patient and loyalty (Hirschman 1970)	Rational reticent (Gilson and Gordon 2011)	Engaged, responsible (Eccles et al 2011; Mayer 2015). Cooperative (Freeman and Strand 2013)

Table 3: The evolving cooperative rationale of domestic institutional investors buying larger stakes in listed companies

As domestic institutional investors find themselves embedded in a Swedish stakeholder social context, I argue that when this shareholder group revises its roles as asset managers in the direction of more long-term mandates with more of a sustainability focus, the corporations will be pressured to act in line with both Mayer's (2015) value creation and Strand and Freeman's (2015) commitment to a Scandinavian-style collaboration between companies and their stakeholders.

My findings extend on the Hellman (2005) analysis that builds on data from 1993 and 1995, as well as research conducted a few years after the turn of the millennium (Bengtsson 2005; Jansson 2007). Much has now changed, regarding both the ownership of Swedish companies and the investment style of Swedish institutional investors.

In a previous article, Kallifatides and Nachemson-Ekwall (2016) suggest that both owner rationale and the chosen time horizon for investments matter when it comes to engagement in governance. Through moving part of the domestic institutional investors' assets into larger stakes that are evaluated with a longer time horizon, they have both increased commitment to the Swedish shareholder-friendly corporate-governance model and enhanced integration of sustainability and ESG metrics in the investment strategy. Here I argue that integrating sustainability metrics into investment decisions will limit political risk related to 'socialization' or 'protectionism'. This should open up for reconsideration the notion of loosening regulatory limits on ownership size.

This chapter, thus, argues that when asset managers' norms become (a) positive towards investing that is more focused on the home market and (b) this is combined with sustainability metrics and (c) an owner-friendly governance system, society can leverage on domestic institutional investors' embedded character in a value-creative and sustainable way that has previously been ignored. As a result, further research on Swedish institutional investors' ability to enhance a Swedish cooperative advantage should be promising.

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CHAPTER 12

The case of [partial] organising for CSR

Bridging the responsibility gap for SMEs

CLARA MY LERNBORG AND TINA SENDLHOFER

Introduction

This chapter investigates the particular efforts involved in organising corporate social responsibility (CSR) in global supply chains (GSCs) from the perspective of small and medium-sized enterprises (SMEs). Our reflections relate to two chief aims: first, the exploration of which particular organisational elements are used to translate values of corporate social responsibility (CSR) into a global context, and second, delving into the implications of responsibility that may occur as the result of such efforts to organise. The importance of allowing SMEs to adhere to rules set by other actors is a particular focus.

Concerns about the irresponsibility, as well as the social and ecological unsustainability of the textile industry, have been raised during the last twenty-five years. This has led market actors to organise in different types of collaborative initiatives and for different causes, including increased minimum or living wages, sustainable cotton production, and water conservation, among others. Although labour issues are proclaimed to be at the top of corporate sustainability agendas, they can be difficult to organise and measure. Allegations of violations of various labour rights abuses are frequently made in the media (Grafström et al. 2015). Also, settling for auditing only first-tier suppliers is common practice, leaving many labour issues unresolved (Locke et al. 2007). SMEs often tend to escape such media scrutiny. Yet some SMEs seek to take responsibility for labour in their GSC, implying organising sustainability from afar. Hereinafter, we contemplate partial organising as a means of allowing for such an event, e.g., measuring, controlling, and organising labour issues from afar on a broad GSC scale.

In this chapter, we analyse an example of this kind of organising in the textile industry. The case of the Device Company described focuses on a digital tool for workers' rights as an example of partial organising. We study the organising of CSR, enabled by a digital device, with the use of the organisational elements membership, hierarchy, rules, monitoring and sanctioning. The remainder of the chapter is organised as follows: we begin with the theoretical and empirical concern of SMEs as rule-setters versus rule-followers. Thereafter, we introduce the theoretical concept of [partial] organising of CSR by SMEs and the translations to its suppliers in the GSC. Then, we move on to the empirical account of the digital device. The analysis focuses on the applicability of organisational elements coming together in the process of conveying the importance of responsibility and particularly the rule-keeping opportunities afforded for SMEs through partial organisation. The final part summarises the main conclusions.

THEORETICAL AND EMPIRICAL CONCEPTUALISATION OF SMALL AND MEDIUM-SIZED ENTERPRISES AS RULE-SETTERS VERSUS RULE-FOLLOWERS

Our empirical and theoretical challenge lies in how SMEs, given resource constraints of knowledge, economic power and internal motivation (von Weltzien-Hoivik and Shankar 2011), can organise the rules of CSR in GSCs. Given the prevalent tendency toward internationalisation, and the related practice of outsourcing, SMEs have increasingly globalised GSCs. In order to maintain these, Western SMEs as well as their suppliers, frequently located in the Global South, are required to follow rules of CSR in the form of codes of conduct and other types of certification programs (Jorgensen and Knudsen 2006). Such rules may be difficult to follow for many SMEs, not least given the lack of economic resources required for monitoring adherence. Further, there is a lack of economic leverage over suppliers that may hinder the willingness of the latter to follow these rules.

There are different roads to take in relation to CSR rules. Some SMEs take the lead and pioneer new initiatives; Egels-Zandén (2015) presents a revelatory case in the textile industry in which Nudie, a small Swedish brand[1], implemented a living wage at its supplier, something which allegedly 'could not be done' according to fashion giant H&M. Thereby, Nudie singlehandedly changed the

1 We consider 'brand' to refer to fashion companies (SMEs and MNCs) that sell products which are labelled.

rules of the game and set its own new rules. Another example of such an SME is given by Kallifatides and Egels-Zandén (2013), e.g., Dem Collective, a small and fledgling brand that implemented strict CSR rules in its GSC, thereby providing symbolic value showing that the rules can be altered. Egels-Zandén (2015) characterises this type of SME as institutional entrepreneurs, whilst others call them social entrepreneurs, with an interest in marrying different logics and improving practices (further developed in Furusten and Juncker's as well as Le Coq et al.'s chapters in this book).

Not all companies are able to set the agenda for CSR, and with the bulk of companies worldwide consisting of SMEs it is vital to allow SMEs to follow the rules of CSR (Baden et al. 2009). It is not necessarily for lack of motivation that SMEs do not engage with CSR. There is thus a need to allow SMEs to adhere to established rules. However, with various regulatory lacunae and different frameworks, as well as little possibility of economic leverage, SMEs seem to have little possibility of doing so (Perry and Towers 2009). There are several ways of organising CSR in order to circumvent this. One natural way of doing so is to collaborate with partners (developed in the chapter by Le Coq et al.). However, this study concerns itself with the organising of the CSR efforts, and we are interested in determining which organisational elements (Ahrne and Brunsson 2010) most expediently allow SMEs to set or follow the rules of CSR.

Knudsen (2013) emphasises the significant research gap when it comes to SMEs both supplying and following private regulation in GSCs. Thus, we suggest that it is useful to categorize particular SMEs as either rule-followers or rule-setters. The vast majority are rule-followers. We will investigate how these can be organised, with a particular focus on identifying the organisational elements that facilitate organisation; i.e., how partial organising can enable SMEs to organise CSR. This issue is important both empirically and theoretically, given the dearth of research on SMEs in general, and empirically, in terms of in-depth case studies.

Conceptual background

[PARTIAL] ORGANISING

A perspective seldom taken into account when studying CSR is that of organising for it. In the CSR literature, we see that the elements involved in organising are often underappreciated and understated (Rasche et al. 2013). In order to further investigate how SMEs can follow the rules of CSR in GSCs, we find the concept of [partial] organising useful for understanding which organisational elements are used for translating the idea of CSR.

For this study, we make use of the view on institutions, networks, organisations and partial organisations devised by Ahrne and Brunsson (2010). Institutions are often seen as the taken-for-granted order, rules, regulations and norms constraining and enabling behaviour; whilst networks, in their purist definition, are a web that spans between two or more related actors (e.g., a relationship). Organisations are the result of organising through established orders.

Decisions can be divided into five categories. First, decisions have the possibility to grant access to market conditions. Second, decisions are restricted by the rules of their environment, such as norms. Third, every decision made by individuals or organisations implies taking responsibility thereof. Fourth, decisions about the five organisational elements allocate the responsibilities and tasks to be carried out by others. And fifth, decisions are always a source of dynamics that may arise from them. For a detailed review of decisions and their consequences, we encourage the reader to delve into the article by Ahrne and Brunsson (2010). The five decisional categories create a kind of logic for defending the necessity of [complete] organisations. However, with this kind of flexibility and control, [complete] organisations are likely to create instability and risks to markets through weak and unstable orders, as it allows for questioning thereof.

Following Ahrne and Brunsson (2010), organisation does not only occur within the boundaries of formal organisations. Instead, 'organisation' is better understood through the unpacking of organisational elements involved in the black box of organising, which include membership, hierarchy, rules, monitoring and sanctioning. Formal organisations make use of, and have access to, all of the five elements, whereas variations of organising have access, but only make use of selected elements. The former, formal organisations thus can be regarded as being complete, whilst partial organisations make use of only a selection of these elements. Notably, the use of organisational elements by partial organisations can be considered to be fluid, i.e., partial organisations can make use of all the elements at various points in time. Many forms of organising for sustainability or CSR are informal and indeed partial (Rasche et al. 2013). For instance, membership and hierarchy are strong premises for rules. We contend that partial organising is one method of doing so in an increasingly fragile global order, suffering from responsibility gaps.

Furthermore, in a period of increasing rules, standards and certification, partial organisation allows the bridging of regulatory gaps from a distance (Ahrne and Brunsson 2010). Just as formal organisations are created in order to govern at a distance, so too can the use of just a few particular organisational elements serve the same purpose. As indicated previously, organisation boils down to acts of decisions and decision-making, as well as attempts at executing an intended order, in our case the order of who should take responsibility for what. When taking and attributing responsibility for matters pertaining to workers' rights, there is seemingly ample need for an intended order, rather than remaining in the current emerging order.

What meanings do the five organisational elements carry? The five elements are based on Goffman's 'focused interaction' (1972) framework. The first element, *membership*, determines who is interacting with whom. Every individual or every organisation involved has to know of the other. The second, *rules*, set the framework for exhibiting responsibility for one's behaviour, as well as indicating how to execute related tasks. Third, *monitoring*, allows all involved participants to keep track of each other's behaviour and therefore lays the basis for forging plans and goals. Fourth, *sanctioning*, empowers the measure to persuade the other to act in accordance with the rules. Fifth, *hierarchy*, is the evidence for power relations and arm's-length relations. Here again we encourage the reader to take a closer look at the work by Ahrne et al. (2014). In a nutshell, all elements are either achieved through cultural norms, charisma, social status and traditions, or are created through decisions (March and Simon 1958; Luhmann 2000). Hereby, we argue that [formal] organisations are created through decisions, which postulate the organisational elements. Furthermore, we believe that organisations attempt to arrange their own environment, from which the concept of 'partial organising' emanates. Repeated partial organising occurs when organisations use one or more organisational elements to organise their environment. These elements can be used independently from each other and exchanged over time. Due to its flexibility, partial organising allows for rather ad-hoc organisational changes, as well as adjustments to environmental changes.

Also, we regard the view on individual market actors, in our case SMEs and their explicitly experienced difficulties in forecasting market changes, as particularly worthy of consideration when identifying the benefits of partial organising. Assuming responsibility for either one or a larger selection of organisational elements enables economising of resources. Despite the possibility that all elements can exist by themselves, organisations tend to refrain from making use of merely a single organisational element. Usually, organisers combine two or more elements with each other or depend on other organisers to take responsibility for other elements (Ahrne and Brunsson 2010). This is rooted in the resource-intensive nature of facilitating all elements, as well as ensuring decision processes on one hand, and on the sometimes intra-competitive nature of organisational elements on the other. An example is the coupling of standardising systems to certification programs. Another example studied by Lembke (2006) is partnerships. The author found that membership and rules, or membership and monitoring, constitute frequent combinations for formulating partnership relationships.

Some SMEs might aim at institutionalising their partial organisation 'CSR rules' in order to make their environment more predictable, and further to be able to proactively adapt to market changes (Nee 2005). As mentioned, we conceptualise SMEs as either rule-setters or rule-followers and thus find partial organising a useful theoretical starting point, allowing the unveiling of the organisational elements involved in how such rule-setting versus rule-following is organised.

Corporate Social Responsibility

CSR[2] has a plethora of definitions (Dahlsrud 2008) and is frequently seen as an application of business ethics (Gerriga and Melé 2004), while others frame it as a management idea (see Jutterström's chapter in this volume; Czarniawska and Panozzo 2008). Regardless, the notion of CSR itself is not new; it is of

2 We define it as 'the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large' (WBCSD 1999: 3).

course related to what it means to be a 'good' company. Frequently for SMEs, the notion of what a good company does, and taking responsibility, is heavily focused on employees and community aspects (Morsing and Perrini 2009). However, CSR itself addresses these issues in a 'new linguistic costume' (Frostenson 2013), and one can argue that this is especially true for SMEs. Further, Frostenson (2013) stresses the importance of existing rules in determining how CSR, or which type of CSR, is understood in an organisation. The idea of CSR or responsibility relates to rules of acceptable behaviour, involving multiple forms of regulation and standards, voluntary and involuntary. Irrespective of the degree of voluntarism, the rules or regulations of CSR are frequently vague, and therefore their global diffusion allows for heterogeneous adaptations and translations.

SMALL AND MEDIUM-SIZED ENTERPRISES AND ORGANISING FOR CSR

With over 90 per cent of companies worldwide consisting of SMEs[3] and accounting for 70 per cent of global pollution (Hillary 2000), SMEs constitute a crucial gateway to a [positive] sustainability impact worldwide. There are many peculiarities of SMEs, affecting their engagement in CSR and sustainability activities, the highlights of which will be presented below.

In general, it can be said that the pathway to decision-making and agency is shorter in SMEs, as the manager and the owner are often the same person. The owner's/manager's personal values and level of morality can also play a major role in determining the level of commitment to the implementation of social responsibility programs in the SME (see Lepoutre and Heene 2006; Hsu and Cheng 2011) as well as that of interpersonal relationships (Murillo and Lozano 2006; Miller et al. 2008). Although it is often stated that SMEs should not be thought of as mini-MNCs, their CSR commitment and efforts may be as prominent, but not as visible as those of MNCs (Vives 2006). There are multiple explanations for this, ranging from the formal categorization of CSR activities (Matten and Moon 2008) to the lack of scrutiny from the media (Jenkins 2006). Additionally, an important aspect in which SMEs differ from larger companies is that SMEs tend to use looser structures for control, with

3 We orient our interpretation of SMEs in accordance with the official definition set forth by the EU. The EU defines SMEs as enterprises that comprise fewer than 250 employees with a maximum turnover of 50 million Euros (EC 2005).

less focus on documenting transactions, procedures and standards (Jenkins 2004; Fassin 2008; Spence 2007).

SMEs are at times presented as unlikely change agents for responsible production in GSCs (Jorgensen and Knudsen 2006). This inability is frequently attributed to lack of both bargaining power to suppliers (Lepoutre and Heene 2006) and internal motivation (von Weltzien-Hoivik and Shankar 2011). They may also experience difficulties in influencing their suppliers to reduce negative environmental and social impacts (Ostlund 2014). Buyer brands and suppliers are exposed to various stakeholder demands in both directions, upstream and downstream, which lead to emerging ambiguity (Pedersen and Gwozdz 2014). In fact, SMEs may act as change agents, especially in terms of rule-keeping (Jorgensen and Knudsen 2006).

There are multiple perspectives of how to view SMEs. They can be seen as either forward-thinking actors, or as laggards reacting slowly to the discourse on responsibility. The former view is consistent with an entrepreneurial disposition and drive, and potentially viewing them as social enterprises – i.e., that a part of their mission and vision is driven by a will to do good. SMEs can also be frontrunners in the race towards sustainability.

TRANSLATION OF RESPONSIBILITY

CSR is frequently analysed in terms of institutional theory and there are multiple accounts of the institutionalization process of CSR and its practices (Jutterström and Norberg 2013). This approach may be helpful in understanding the implications of embeddedness in a particular institutional, social and cultural context. However, what is rarely broached is how such practices are translated as they travel (Tempel and Walgenbach 2007). For example, when codes of conduct travel, they are translated and re-embedded into a new context. Translation highlights the active rather than passive role of actors in spreading practices and ideas (Czarniawska and Sevón 2005). The travel results from ideas being picked up, repackaged into objects and artefacts, conveyed to places other than where they emerged, and re-embedded into new settings (Czarniawska and Joerges 1996). In this process, ideas and institutions do not morph spontaneously, but rather derive from translations. Local institutional settings, embedded actors and time all contribute to the understanding of how ideas, institutions and knowledge flow. Frequently, CSR rules are very vague in order to allow for a multitude of situations, contexts and engagements, leading to heterogeneous translations (Frostenson 2013). The main research question addressed in this chapter is how SME buyers can organise CSR in the GSC and thereby bridge regulatory gaps and follow rules. Hence, we draw on the concept of translation (Czarniawska and Sevón 2005) in order to understand the conveyance of the idea of CSR from SME buyers to their suppliers through the artefact of the digital tool.

The case

We study a Swedish company's implementation of a device for allowing training on responsibility and workers' rights in the textile industry.

The textile industry is a highly mobile industry, with a presence on every continent (Romani-Rinaldi and Testa 2014), which can result in institutional voids and conflicting legislation and norms. There is thus a need for some form of transnational governance and so actors organise to jointly undertake this endeavour. The lacuna of regulation has led to unprecedented forms of (transnational) governance, regulation and organising of responsibility. The Swedish textile industry has an estimated turnover of 206 billion SEK, 129 billion SEK of which corresponds to the largest retailers. Nevertheless, a large part of the Swedish textile industry is constituted by SMEs, the majority of which outsource their production globally (Mouwitz and Svengren-Holm 2013).

The Swedish government, Swedish companies and other actors have realized the importance of transition and have therefore engaged in various forms of organising sustainability. Scandinavian companies in particular have long been held in high esteem by their peers when it comes to matters of engaging with responsibility and sustainability (Strand et al. 2015). This characteristic is naturally related to the disposition, attitudes and motivations of SMEs in seeking to cultivate more responsible GSCs.

THE ROLE OF SMES

Similar to other industries, SME buyers have a low-profile but important role in the textile industry (EC 2016) as they account for the majority of the buyers in the field. Yet, when it comes to issues of responsibility, they hold little influence in terms of persuading their suppliers to adopt CSR; they seldom participate in roundtable discussions such as multi-stakeholder initiatives; nor do they frequently engage in cross-sectoral collaborations or make an effort to communicate their CSR efforts (Morsing and Perrini 2009). It is thus difficult to identify ways that SMEs can organise in order to overcome these challenges in contexts devoid of enforced regulation on issues of CSR.

CONTEXT OF REGULATORY GAPS AND PRIVATE SELF-REGULATION

China, Bangladesh and India are the leading exporters in the global textile industry. China is the largest player and in 2013 accounted for 37 per cent of the total textile exports traded around the world (WTO 2014). With labour costs soaring in the past 15 years (Schumacher 2015), China is no longer the cheapest country to produce in; with the economic downturn, production is moving to emerging markets such as Myanmar and Vietnam. The setting we studied for introducing the digital tool is the Chinese supplier context. Although there has been increased legislation pertaining to both environmental and social matters in China – most notably, the minimum wage has risen substantially in the past decade (OECD 2012) – there are still numerous examples of infractions in these domains. Further, the existing system of implementing and controlling codes of conduct through third-party auditing has been deemed unsatisfactory (Egels-Zandén and Lindholm 2015). Indeed, the relationship between suppliers and auditors is frequently referred to as a game of cat and mouse in the literature (Locke 2013). It is thus of utmost importance to investigate ways in which buyers with relatively little economic influence, such as SMEs, can organise CSR.

The most pressing labour issues remain the use of overtime and labour unions, e.g., workplace dialogue. It is estimated that workers have little awareness of existing legislation and their rights (Wells 2009). Under the Chinese labour laws dating to the mid-1990s, the regulation on overtime stipulates that employees can work no more than eight hours per working day (with certain exceptions), and can work no more than 36 hours of overtime per month (Shira 2015). However, as there now is a labour shortage, authorities routinely turn a blind eye to overtime practices that fall afoul of this law (Chu and Davis 2015). Further, many factories may compete on the amount of overtime they can award to workers (Mishkin 2013). Additionally, factories are seeking out new populations of employees such as recruiting students. However, those between 16 and 18 who are eligible to work are protected by further restrictions such as limits on night-time work and overtime. This incurs costs such as severance pay, which sometimes is not paid out by the factories. When it comes to labour union participation, there is only one state-mandated labour union. As a result, China has not ratified the International Labour Organization Convention 87 on labour unions, on which many codes of conduct are based, notably that of the Business Social Compliance Initiative (BSCI 2016).

The Chinese context thus presents multiple challenges for buyers wishing to pursue more responsible practices. It is considered difficult for an SME to influence a supplier to act in a more responsible manner. There are notable exceptions in which SMEs have done so, and thus have become de facto rule-setters (Egels-Zandén 2015). However, in order to address the challenges facing the large number of SMEs that do not have that type of agency and internal motivation, and instead wish merely to abide by and follow rules (Egels-Zandén 2015), we now turn to investigating the organising elements that potentially allow them to do so (Ahrne and Brunsson 2010).

THE SOLUTION: THE DEVICE COMPANY (DC)

The DC is a Swedish enterprise with headquarters in Stockholm and Hong Kong. It was founded by two Swedish entrepreneurs who had prior experience working in the textile industry. It offers a digital training service designed in collaboration with global buyers and suppliers to add measurability and transparency to social responsibility efforts. We regard the DC as a classic example of a hybrid SME social enterprise[4]; its mission states, 'We help global buyers to manage risk, help suppliers to generate business and in the process train millions of workers on their rights and responsibilities' (website: 'TheDeviceCompany'.se).

The company was founded in 2013, and in early 2014 the first prototype of the digital training service was pilot-tested in Bangladesh. This enabled the founders to investigate the potential of their engaging, modern technical solution for learning about work-related responsibilities. The pilot test was perceived as being successful, so henceforth the founders decided to focus on product development and invested to grow their business. In early 2016, the company counted a team of eight employees and 19 Western business partners, predominantly Scandinavian, and 50 Chinese factories currently using the tool with more than 3,755 employee and managerial training sessions

4 Peredo and McLean (2006: 64) define social enterprises as those aiming at creating both social and economic value 'in some prominent way'.

completed as to date. The DC currently operates in multiple locations in China and is in the process of expanding its business activities to Bangladesh.

The founders have both worked in the Scandinavian textile industry, with a focus on supply chain management, social sustainability and educational training of workers. Inspired by their experiences, the two founders teamed up to work on a solution bridging the social responsibility gap between Western fashion companies and their faraway first-tier suppliers. Thus, their digital training service resulted from their industry learnings and their knowledge of the lack of tools to directly address social and environmental issues in a direct and measurable way through e-learning. According to them, e-learning is currently widely exclusive to top managers' trainings. Furthermore, the DC is on the verge of launching a portal, that allows buyers and suppliers to share information on these issues.

However, in order to reach out to workers worldwide, the mission of the SME is formulated around the idea of enabling workers in the GSC to learn about their rights and about safety; the founders have a goal of reaching two million workers by 2020. Additionally, they wish to contribute to the measurability of the knowledge level at the workers' level, as well as to add transparency for buyers in the GSC.

The aforementioned gap applies especially to SMEs' buying companies, as these often claim to have little bargaining power or leverage over their suppliers. The DC's vision pertains to simplifying the process of organising for sustainability, particularly for SMEs and their suppliers and buyers, as well as consolidating power for small buyers and suppliers to enable them to market their performance, simplify their reporting and auditing duties, and allow for easy sharing of reports with customers. Thus, this also allows suppliers to generate business through the tool; with the support of the DC, the supplier can perform trainings at any time, ultimately leading to stability, responsible production, and economically advantageous long-term relations.

THE DIGITAL DEVICE

The content of the device is based on guidelines from the BSCI, International Labour Organisation (ILO) conventions, local laws and experts in the field. It constitutes a baseline for the labour rights that all companies need to take responsibility for, tailored to local contexts. Since the ILO convention is not ratified, the device adapted the Chinese national law regarding labour representatives and workplace dialogue. Furthermore, in collaboration with local suppliers, the device has been using the national education system's emphasis on 'trick' multiple-choice questions, making it harder to answer correctly. When it comes to other local contexts with low literacy, the focus is on making it user-friendly for illiterate users (IT Manager, DC).

The convenience of the device is frequently highlighted by the DC. It can be brought home by the employees, it is entertaining, it can be played alone or in groups, 'the movies are designed like Chinese soap operas' (Founder, DC), players are awarded golden stars and the format resembles the game show 'Who wants to be a millionaire?'. Frequently, workers in China are migrants, far away from home, working long hours and with little free time and few sources of amusement. With the device, they are offered entertainment, combining usefulness with an engaging leisure activity. Previously, this type of educational training has only been possible in-house, during working hours, incurring a significant financial and opportunity cost for the employer. However, the modern concept of storing content on a portable device allows workers to 'borrow' it from the employer and educate themselves during non-working hours.

The tool aims at building knowledge among the workforce and raising awareness of their rights. Ultimately, the tool distinguishes itself from classic training films or training sessions, because the tablet stays with the factory and workers can benchmark their learning over time in the form of a quiz game. Furthermore, the Device is not a testing tool. Workers can use it anonymously, without feeling monitored by their supervisors. Furthermore, as the tool has been developed in close collaboration with both buyers and suppliers, partners and factories have reported that they experience a feeling of ownership vis-à-vis the contents and the usability of the DC.

How we studied 'partial organising'

Both authors followed the launch of the digital device in China. The data collection was conducted predominantly through semi-structured interviews over a period of six months in Sweden and China. Furthermore, interviews were held with the two founders and the IT manager of the DC as well as with involved managers and workers at two of the involved suppliers. The empirical data collection for this paper entailed a primary exploratory research method, which involved following the introduction of a tool for allowing more transparency and measurability of social responsibility aspects in GSCs. We also made use of secondary materials such as websites and movies, as well as observing the use of the device itself. Thus, we conducted an explorative case study of partially organising CSR in the GSC. The case involves an explicit effort to organise social responsibility and it highlights the efforts involved and elements used in organising CSR.

At the DC, the two founders of the company were interviewed together, as no other arrangements could be made, which enabled them to compare notes and allowed us easily to see where their ideas diverged, although they largely corroborated one another. The IT manager, who has been with the company from the start, was identified by the founders as a key actor in the company.

At the two suppliers, relevant managers and, if applicable, owners were interviewed separately and workers were interviewed in groups so as to avoid singling out any of them. At all times, the two authors were both present, along with an interpreter. The interviews were held in English when possible and translated from Chinese when necessary. All interviewees agreed to have the interviews recorded under the condition of remaining anonymous. In a further step, the recordings were transcribed and where needed translated by professionals.

After transcribing the material, the contents were then screened for completeness and were then coded independently by both authors. Both authors used the software program NVivo in the coding process. The whole set of data contains qualitative material, comprising ten semi-structured interviews, memos written during the coding process, as well as case descriptions which were available on the Internet until December 2015. The data was analysed using grounded theory techniques (Glaser and Strauss 1967). With our particular research question in mind, the material was coded to allow for developing stable first-order codes. We systematically compared and contrasted 75 codes. This intensive iterative process, which included a review of the literature, led us to concentrate on a selection of ten codes. This process is illustrated in Appendix 1, in Table 1, with content examples for all codes. This approach allowed us to establish the importance of organisational elements which can be considered as an adequate framework for explaining the case of SMEs and their way of making use of partial organisational elements to translate their view on CSR to their faraway business partners.

The specific case, as described below in further detail, enables us to explore the observed phenomenon of partially organising for Scandinavian-driven CSR from several perspectives. Due to the strongly expressed wish of some of the respondents, we treated all interview data as confidential via the use of pseudonyms.

Framing the case theoretically

Much has been written about the sustainability challenges in GSCs with transnational regulation gaps; due to this situation, organising responsibility must transcend national and organisational borders. It is frequently highlighted that global sustainability standards be based on a recognition of local contexts (Boström et al. 2015). The digital device studied in this chapter represents such an attempt, and we thus find it revelatory for understanding how the use of certain organisational elements allows for translations of CSR views and, potentially, a resulting shift of responsibility from buyers to suppliers.

In this chapter, we identify all actors involved as individual complete organisations that are connected through contractual business-exchange relationships (i.e., purchasing or service agreements). We theorize that buyers, suppliers and other actors in the supply chain benefit from making use of organisational elements (i.e., membership, hierarchy, rules, monitoring and sanction) to translate the Scandinavian view of CSR to Chinese business suppliers.

As mentioned previously, Western brands increasingly either anticipate or react to stakeholder pressure and drive their CSR agenda at their suppliers' level. Stakeholder pressures include a growing emphasis on accountability and transparency (Börjeson et al. 2015). These external pressures are sometimes the main drivers for initiating the organising for CSR activities. SMEs experience difficulties in implementing their views on CSR as they tend to lack leverage over their suppliers (Helin and Babri 2015) with regard to implementing ideal guidelines or codes of conduct, for example.

Nevertheless, once a SME has crystallised and codified its CSR views, then five critical implications are suggested for partial organisations: 'decisions constitute attempts, dramatize uncertainty, offer explanations, highlight the significance of individuals and dramatize human control' (Ahrne and Brunsson 2010: 8). So how does this play itself out in our example?

If a Western brand decides about its goals and seeks to cooperate with its suppliers, then the decision creates an environment for a specific order. However, this decision does not necessarily mean that this order is, or will be, accepted by all parties involved. This discrepancy between decisions, [non]-agreement and [non]-compliance between buyers and suppliers has been studied by several authors (see Börjeson et al. 2015). The next implication is that decisions create uncertainty (Luhmann 2000). When future goals and objectives, which vary from the current reality, are applied and undertaken, then these choices can be interpreted as potential threats to the organisations and therefore can trigger a reluctance to accept or comply among some parties. On the broad spectrum of possible CSR goals, Scandinavian CSR agendas are considered to represent the more ambitious side of the spectrum, due to the fact that they are often resource-intensive goals, such as monetary investments, changes in management systems and practices or alterations in procurement strategies (Perry and Towers 2009). Even though suppliers might regard CSR agendas as important and support such goals, at least in principle, they might continue to lag behind in practice (Carter and Rogers 2008).

Furthermore, decisions function as explanations (Ahrne and Brunsson 2010). If a CSR strategy is at least partially organised, then it is easier for organisations to transparently track the order of logic and decisions. In the relationship between buyers and suppliers, explanations can be perceived as making it easier to solve, for instance, questions of accountability, since CSR agendas and their tasks by definition go beyond basic requirements and therefore are often organisation-specific. Due to the fact that the sustainability movement in the textile industry is a rather recent phenomenon, social rules and norms have not yet had time to be established (de Brito et al. 2008). Related to this, the focus on one organisation, or one person, respectively, represents another challenge for CSR. Individual organisations might lack legitimacy when trying to drive CSR matters. As such, an individual organisation, especially in the case of a SME, needs to achieve legitimacy before undertaking such an initiative, and often does so by organising CSR in collaboration with others. Lastly, decisions dramatize human control, which means that responsibility is assumed by the decision maker. However, we theorize that partial organising for CSR agendas facilitates the transmission of accountability for CSR achievements to the other end of the business relationship.

Taking these decision processes into consideration, we henceforth contend that CSR views can be conceptualized as partial organising (as shown in Figure 1).

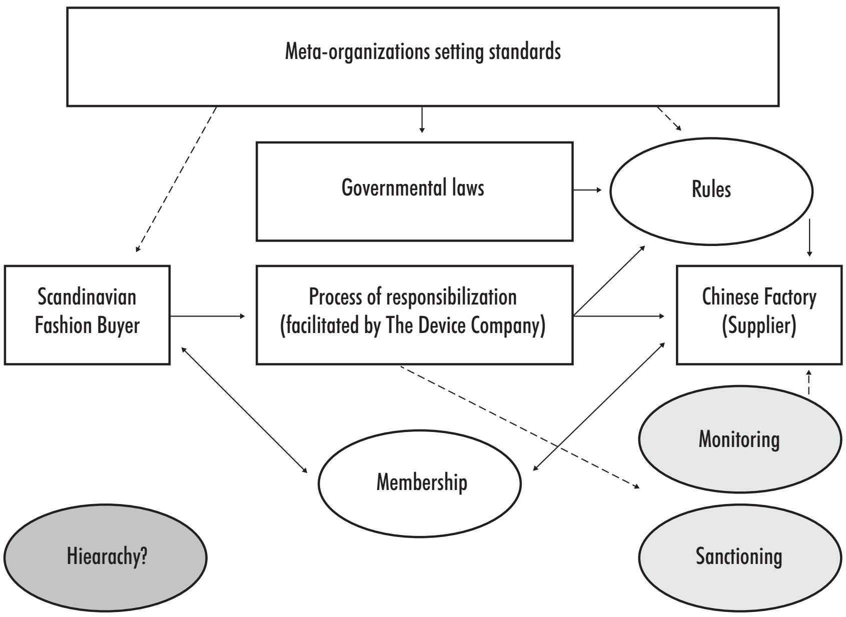

Figure 1: Model for 'Partial Organising'

The restriction to a few elements of complete organisations implies the existence of hurdles. However, in the following paragraphs, we highlight certain organisational elements as being key for organising CSR, thereby making sense of the appropriateness of certain elements for the translation of CSR views from Scandinavian fashion buyers to their suppliers.

Membership can be seen as involving the mutual agreements concerning closed relationships. There need not necessarily be interactions between the players, or recognition of some common interests between actors. Membership is used as an element to establish the direction of a decision – who is it for? It can be very important for implementing rules or a new order and thereby ensuring compliance. The boundaries of membership matters a great deal in the process of attempting to create a new order. One possible desired outcome of establishing membership is thus ensuring compliance with rules, and it is possible that there is a loop between compliance and how much one organises.

The DC has a formal membership base; there are contractual agreements with fashion buyers with regard to the usage of the device. There have been two 'introductory' meetings in China, organised by the DC, with local Chinese governments, Chinese universities, fashion buyers and their currently contracted suppliers. The two meetings were organised with two primary goals in mind. First, they sought to bring together all parties involved, especially those who were soon to be enrolled in the circle of active users of the device. Second, the two meetings were held in order to give the Scandinavian fashion buyers the opportunity to make their view of CSR clear to their suppliers and to generate a common understanding of these issues. Scandinavian fashion buyers that could not attend were given the opportunity to share their views in a professionally produced movie clip created around the theme of 'the DC bringing business, knowledge and engagement'. Despite that, it was not clear if suppliers that could not attend were given the same opportunity. The founders of the DC explicitly stress the key significance of 'shared ownership'.

At the moment, the cost for the use of the device is placed on the Scandinavian fashion buyers, whereas in the initial pilot testing phase, suppliers had to commit their time and allocate time for employee participation in order to allow for implementation. In the future, the DC, as well as the brands participating, regard it as a positive that the suppliers will also pay a fee for the use of the device, in order to further enhance the sense of buy-in and 'shared ownership'.

> What we want to do in the business model already - we always tell the buyer [Scandinavian fashion brand] that we believe you should share the cost. [...] If you are a supplier and you need to pay for it, you will feel much more valuable – I have paid for it, let's do something with it. So we believe that is the key. (Founder, DC)

Next, the element 'hierarchy' sorts the responsibility of who has to make what kind of decision. By leveraging hierarchy as a tool, an organisation may be able to monitor and impel the other organisation into compliance. Furthermore, hierarchy connotes power. With power, however, comes responsibility.

A fashion buyer can deliberately refrain from using the element of hierarchy, because it would make them accountable for [non] compliance. With hierarchy, they would assume responsibility and follow-ups on their CSR agenda would be a prerequisite for working together. If they abstain from using the element of hierarchy, then the organisation on the other end of the business relationship, namely, the supplier, has to assume responsibility for their compliance.

Even though there is no formal hierarchy (in that no one is formally seen as superior in the chain of command), both brands and suppliers have submitted requests and suggestions about the device's functionality and content. The suggestions advanced by the brands have mostly been related to the design and functionality of the device content and the subjects on which the device tests users (including codes of conduct), whereas the suppliers have had objections to the format of the content in terms of how the questions are phrased, or how many right answers there should be to each question. One could argue for the existence of an implicit hierarchy. However, since the core idea of the tool is to enforce the compliance of the supplier and create business for them, we contend that the element of hierarchy plays a rather strong role at the current juncture, but that in the future, its role is very likely to grow weaker as suppliers will use the tool independently of their contractual relationships. We believe that the business model speaks for the case that Scandinavian brands are the gatekeeper and main driver of enforcing workers' rights, but that eventually they will take a more passive role in the process.

> I think…[responsibilization] takes a while. Slow progress, actually. Slow progress. Because it really depends on the investment of the company. Because of the company, we have to survive and show profit. […] But of course, as a responsible supplier, we try to cover as much as possible. […] (Agent, The Fashion Agency)

Another tool for justifying and legitimizing decisions is to create a set of rules. Rules limit the degree of uncertainty, increase consistency and aim to provide direction for the decisions that have been made. However, due to various reasons, such as cultural differences or differences in legal landscapes and business practices, CSR agenda efforts are exposed to a jungle of unregulated and non-standardized environments. It seems to be difficult for the organised firms to understand rules, monitor or execute possible sanctions. Sustainability has grown in importance over the last several years and even supra-national organisations are advocating sustainability rules, as recorded in the COP21 goals set forth in September 2015 (EC 2016). In accordance with that, Karaosman et al. (2014) claim that the success of transmitting sustainability goals depends on using a common 'language'. This common 'language' can be interpreted as a common agenda, goal or rule.

The suppliers commit to making use of the device in their factories and providing it to their workers and managers. The rules are conveyed via the content of the device, in terms of following supranational guidelines/company-specific codes of conduct, but also in its long-term and ongoing usage.

> I don't know too much right now, but I believe this will bring us more organised…training to our factory people, to let them know much more about the manufacturing, their rights, workers' [rights], human rights, the industry. It is good for both [of] us, for the management and the workers. […] Because [it lets] them know that we are doing what we need to do. We must do our best to… [improve]. I believe it will help the relationship between workers and management…because in our work here, it is not good for them. It is difficult to get workers. If we can do better, it means we can keep our workers. [That is] good for us, to keep us in production. (Manager, Factory Alfa)

Further, rules lay crucial foundations for a monitoring and sanctioning system. Monitoring explains at whom decisions are aimed. Which actors are to be monitored and how are they to be monitored? It is also important to gauge how decisions about the results of the monitoring (grades, certifications, ratings) are to be used and spread. Accepting such decisions means different things for those who are being monitored and for those who are interested in the decisions made about the results. Furthermore, sanctions are indeed a very powerful tool to oblige another organisation to comply with other elements. However, compelling other organisations might provoke non-compliant behaviour and cause them to seek to organise themselves differently. Naturally, it is in the interest of a buyer to monitor and sanction their supplier for compliance. However, this implies additional cost and might motivate the buyer to remain at a fairly low level of organisation.

Presently, the device does not allow for full monitoring of its users. However, a planned upgrade will allow monitoring of the performance of the factory. The factories have to facilitate the training of their employees, yet they have no means by which to measure their performance. This is intended to counter the potential misuse of the results, such as firing workers.

There are no formal sanctions tied to the use of the device – it should be entertaining, fun, and educational. Currently, participation is optional and voluntary. Suppliers are made aware that training their workers is beneficial for them, and if they choose to be transparent they could even generate business from it. No employee should be sanctioned for (un)monitored performance and no supplier should be either; unless they themselves decide to do so. Indeed, this capability is planned to be implemented in a future expansion of the device, via an associated online portal. Using this portal, the suppliers who so wish can be fully transparent and highlight their levels of engagement and the results of the use of the device. This will be optional, but those who feature their engagement transparently could potentially be rewarded in the sense that they may attract future business partners. This can be seen as a form of positive sanctioning, to be judged by customers more favourably if participating and meeting expectations.

> So the supplier [still cannot see] any results for a person. [...] So there will be no way for the suppliers to see...that these are the ones that never understand the questions correctly. That is really unlikely that that will happen. [...] If you are a really good worker and have done a fantastic job, then the supplier can acknowledge you for that. [...] If you want to, you can go to the supplier and say, listen, I have [high] scores, you know. Give me a movie ticket, or (laughs) or whatever (laughs). Stuff like that. We are trying to build that into it as well. (Founder, DC)

In theory, it appears as if buyers would want to have explicit membership, hierarchy, rules, monitoring and sanctions. A more practical view, however, might reveal that elements such as hierarchy, monitoring and sanctions might not be very useful for implementing CSR agendas. Even though the advantages of establishing complete organisations include inherent legitimacy, certainty, and predictability, as well as the ability to own resources, partial organisations can be a deliberate choice for other reasons (Ahrne and Brunsson 2010). The literature about CSR, sustainability and responsibility, and more specifically in the context of sustainable supply chain management agendas, refers to voluntary, relationship-intensive, flexible and (to-date) non-binding strategic efforts. Thus, we argue that organising CSR between buyers and suppliers is partial rather than complete. This can stem from the fact that some elements are either not needed or already exist and therefore do not necessitate complete organisational efforts.

Devices such as the DC constitute tools allowing such firms to ease monitoring and surveillance of suppliers further down the supply chain. Translations of such responsibility are made possible through, for example, the 'introductory' meetings on CSR held in China, movies accessible via the device, and the types of questions posed by the device, as well as the particular business case for CSR in the local context. Transparency and dialogue are hailed as the solutions for incorporating such a view on responsibility to suppliers (Laasonen 2012). Such normative views on CSR may not be possible to achieve quickly. Also, with the new extended directives on documenting and reporting CSR practices in Sweden finalized, based on the more restrictive EU directives, it is becoming apparent that there are governmental attempts to formalize CSR explicitly and extend CSR practices to smaller companies.

The arguments for engaging in this venture relate to the business case for CSR, with a particular focus on employee retention, a significant problem amidst the growing migrant labour shortage. This reinforces the view of environmental and social responsibility as of a calculative nature, and contributes to the increasing explicitness of CSR (Matten and Moon 2008) performed and translated in a global, but also Scandinavian setting. The suppliers are seen as the ones needing to take further responsibility for their actions and encouraged through 'shared ownership' to take part by following rules and being monitored.

Thus, partial organising may allow brands, and in turn SMEs and MNCs, to shift responsibility to their suppliers and even their workers (Shamir 2008). This is possible because the flexibility of enabling the device to be used after work hours allows for a shift in the costs associated with, and responsibility for, fulfilling obligations from the employer to the employees themselves; in a sense, the workers are being responsibilized (Rose 1999). Thereby, partial organising allows for increased compliance with rules, as well as a partial understanding of the concept of CSR, decoupled from its ethical roots, embedding it further in the calculative, 'win-win' business case for CSR.

Conclusions

In conclusion, the DC device facilitates a platform for Scandinavian fashion buyers to partially organise for CSR at their Chinese suppliers. Based on our interviews, we argue that membership and rules constitute the most prominently used organisational elements. In this specific context, membership and rules build the framework that allows for conveying Scandinavian views on CSR to their Chinese suppliers.

Other organisational elements, such as monitoring and sanctioning, seem to play an increasingly important role. We reason that due to the novelty of the digital device, monitoring and sanctioning are partially used. Nevertheless, we are convinced that observing the progress of the two elements over time will reveal their growing importance. This belief is rooted in the current societal discussions around transparency and traceability.

Further, we perceive the organisational element of hierarchy as formally absent. Even though one might argue that hierarchy is present implicitly, we assign this rather to the country contexts of 'Scandinavian' and 'Chinese'. We observed a tendency on the part of the Scandinavian participants to assume the role of rule-setters. Through the interviews, it became apparent that the Scandinavians act as the experts in CSR and strive to pass this view on to other cultures, in this case the Chinese culture. When looking at specific phrases uttered by representatives of Scandinavian companies, as well as those of Chinese companies, a sense of hierarchy could be interpreted in terms of who wields more influence in making decisions. However, we contend that this is a form of direction of influence and attributable to the country contexts and the nature of the business relationships among the participants. Also, Scandinavian interviewees seemed to contemplate the device as enforcing democracy and equality among all actors involved. Opportunities to provide input are given to all actors. Further, suppliers are formally considered to be equal partners. We believe there is a possibility of the importance of this element becoming stronger over time due to the fact that the device ultimately aims at empowering suppliers to do the 'right thing', independently and for their own sake.

We found substantive diverging views on CSR between buyers and suppliers and observed subsequent attempts to translate responsibility. Furthermore, we found indications that an expected outcome would be that CSR would be internalized and thereby responsibility could potentially be shifted from Scandinavian SME fashion buyers to their Chinese suppliers. In order to discern possible effects that this tool may have, we found the concept of partial organising useful. It allowed us to uncover which organisational elements were involved in this process. We found that membership was a strong premise to allow for such translations of CSR. The lack of formal hierarchy plays in with the Scandinavian egalitarian tradition, and allows for a more collaborative approach between buyers and suppliers. Still, the legitimacy afforded by rules in the form of international standards allow for further (partial) monitoring and partial sanctioning of suppliers and thereby ensure compliance and a shift of responsibility. The concept of partial organising for responsibility can thus be regarded as especially interesting for SMEs that wish to address CSR in their GSC chiefly by following rules, rather than setting them.

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Appendix

Code	Example
Membership	'Because we know from experience that if you get something for free it is not necessarily something you feel is valuable. If you are a supplier and you need to pay for it, you will feel much more valuable. I have paid for it, let's do something with it. So we believe that is the key.' (Founder, DC)
Rules	'The written rules or regulations [are] really perfect.' (Agent, The Fashion Agency)
Hierarchy	'I think really working closely together with buyers to understand their needs, really [working] closely together with suppliers to understand their needs; we did so many interviews during these trips to China and Bangladesh. All together with middle management, with top management, and with workers, so really understanding the core partners in the business idea.' (Founder, DC)
Monitoring	'But now what we have to be careful with is, like I just told her this morning, you could add it in, for environmental protection, but this is a very big issue, isn't it? We have to be careful because, factories may not be able to do it, because you would need to spend a lot of money on this issue, it could be a few million or over 10 million. It could be a million something, it's not affordable by all the factories. So, if you guys write it down, add it in, some small factories are going to be eliminated right?' (Main Manager, Factory Alfa) 'And, uh, and you can check…so you can compare your suppliers and see, you know, how many times have they trained. And so on. And then you can go into more detail. And if you press on that one, you get to detailed information about this particular supplier. And so on. And this is also what the supplier would see when they log in. You know. So, so we just continue to build onto that service.' (Founder, DC)
Sanctioning	'The factories must be eliminated if they can't do this. If we are doing this, at the end, it's possible for you guys to have this back on you, do you understand what I'm saying?' (Main Manager, Factory Alfa)

Chinese View on China	'So, compared with the other countries, China is one of the very typical countries of the CSR, because the government, they set up the regulation of the CSR [with] very high standards compared with others.' (Main Manager, Factory Alfa)
Chinese View on Scandinavia	'The Scandinavian brands are the leading brand following [this] kind of sustainable CSR. So for example, The Fashion Buyers A (Scandinavian) are one of the leading brands, and others such as The Fashion Buyer B (Scandinavian) and Fashion Buyer C (Scandinavian) also have the similar requirement. I think that this is the driving force, actually.' (Agent, The Fashion Agency)
Scandinavian View on China	'This is also something great for the suppliers, the suppliers in meetings with us. When we started with the QuizRR prototype, [we told them] we are a company; we are just like you. We are developing something that is good enough so that you could feel like this is valuable. All right, fine, but they were worried that we are some kind of initiative. Because there has been a lot of [that]. I think what they… really want to change is a feeling of being hunted. Instead of being a reactive partner, to be somebody who can be proactive and say, I know that these issues are important to you. Therefore, I have already done this. So this will be a carrot instead of a stick, as suppliers think that this is good.' (Founder, DC)
Scandinavian View on Scandinavia	'And on top of that, we had different brands talking. Like Clas Ohlson, Lindex, MQ, and actually Ax-stores, which is part of that group, but so they were allowed to talk about why it is important for them. And also showing that they were really proud that a lot of their suppliers joined the program and so on.' (Founder, DC)
Win-Win	'For us to be successful, we also need to make the tool successful for them, and [make] sure that they feel that this is actually driving their business to something better.' (Founder, DC)

Table 1: Codes and Examples (Source: Own Illustration)

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